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## **ABSTRACT**

This report provides an overview of the non-fiscal measures to attract investment that are available to policymakers in Jordan and currently considered to be most effective, with special reference to encouraging the development of regional areas, competing successfully for projects in targeted sectors, and compensating for being located in a volatile region.

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#### ABBREVIATIONS AND ACRONYMS

AMIR Achievement of Market-friendly Initiatives and Results Program

ASEZ Agaba Special Economic Zone

**EU** European Union

**FDI** Foreign direct investment

ICT Information and communications technology

**ISB** Investor Service Bureau

JIEC Jordan Industrial Estates Corporation

JUST Jordan University of Science and Technology MIGA Multilateral Investment Guarantee Agency

OECD Organization for Economic Cooperation and Development

QIZ Qualifying Industrial Zone R&D Research and development

SME Small- and medium-sized enterprise

**USAID** United States Agency for International Development

VTC Vocation Training Corporation

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#### **EXECUTIVE SUMMARY**

A recent study on reformulating Jordan's tax incentive program recommended a complete elimination of tax incentives based on sectoral and regional qualifications, as well as the universal provision of import duty exemption and accelerated depreciation on investment in machinery and equipment.

Focusing on the proposed elimination of sectoral- and regional-based tax incentives, some stakeholders have asked what kind of non-tax incentives government can offer to aid less developed regions in Jordan and to encourage capital investment in government-preferred business sectors, without a selective tax incentive package. In addition, some stakeholders wonder if special measures are required to compensate for the regional factors that adversely affect Jordan's investment and business environment.

This report searches for answers to these questions in three ways.

- Identifying the **theory** of international best practices through a brief survey of scholarly and policy literature (See Chapter 2 for further information.)
- Examining the **practice** of international best practices through a detailed case study of a model country Ireland (See Chapter 3 for further information.)
- Placing the previous discussions in a **local context** by reviewing selected, relevant experiences in Jordan (See Chapter 4 for further information.)

This report is intended to serve as an informative reference for Jordanian policymakers. It does not attempt to provide specific policy recommendations for Jordan.

The findings of this investigation are consistent and clear.

Government incentives offered on a highly-selective basis (tax or non-tax, sectoral or regional) have no record of sustained success. Improving institutional settings and nurturing the overall business environment have emerged as the most powerful tools for promoting capital investment and economic growth. If the business environment is characterized by fundamental weaknesses, the resultant obstacles to enterprise development cannot be remedied by special measures. The literature, Irish experience, and Jordanian experience all support this fundamental conclusion.

The aforementioned business environment includes the following.

- Regulation and public administration
- Infrastructure
- Competition
- Education and skills
- Research and development
- Finance
- Taxation

With regard to regional development, policymakers in many countries are adopting new policies, as traditional policies have failed to reduce regional disparities in almost all cases. They now favor the promotion of "agglomeration economies" and regional competitiveness, instead of "integrated economies" and regional equalization. Popular approaches include encouraging regional competitiveness on global stage by targeting areas according to high growth potential, designing development around "regional hubs" and "rural spokes," and making full use of local, immobile resources, and encouraging collaboration among all stakeholders (public and private).

The most common policy instruments used to achieve these ends currently include the following.

- Institutional support
  - Consisting principally of pro-business government leadership that provides stable social and political environment, including a sound legal system
- Direct government investment in infrastructure
  - Ranging from basic infrastructure (e.g., roads, public utilities, and communication systems) to more sophisticated public goods (e.g., education, training, medical services, research and development facilities)
- Indirect government funding
  - Including funding through commercial banks with government-subsidized, low interest and government loan guarantees
- Direct government funding
  - Including both grants and loans
- Special zones
  - Including special enterprise zones, export processing zones, and theme parks

With regard to regional volatility, the literature is largely silent about measures taken to compensate for such a perceived locational disadvantage. Overly generous incentives are seen by potential foreign investors as a danger signal and hence a disincentive. For this reason, special incentive measures to compensate for being located in a volatile region may have the unintended consequence of reinforcing investor misperceptions, rather than dispelling them. Therefore, the most effective means of addressing this issue may be directly through non-incentive measures, such as focused promotion, non-commercial risk insurance, and bilateral investment treaties.

It is recommended that Jordan move forward with its fiscal investment incentives reform, as it is not dependent on the non-fiscal incentive measures discussed in this report. It is further recommended that Jordan consider carefully and holistically the common policy instruments discussed in this report, in order to formulate specific recommendations. This work would ideally be undertaken by a dedicated research institution.

#### **CHAPTER 1: INTRODUCTION**

## 1.1 Background

In June 2003, Jordan passed Interim Law No. (68) for 2003: The Investment Law (hereafter The Investment Law) as one of five laws in a legislative reform package to modernize Jordan's national effort for investment promotion and enterprise development. The Investment Law repeals The Investment Promotion Law of 1995 and requires that the program investment incentives that it offered be reconsidered and redefined in a regulation issued pursuant to the law. The Investment Law requires the same of the program of investment incentives offered by the Jordan Industrial Estates Corporation (JIEC) offers pursuant to The Jordan Industrial Estates Corporation Law of 1985.

The AMIR Program has recently completed a major study on behalf of the Minister of Industry & Trade to serve as the basis for the regulation required by The Investment Law. This study evaluates the existing incentives program, which relies on highly selective (e.g., sectoral, regional, and conditional) income tax reductions and capital good duty exemptions, and recommends a new program, which promises greater effectiveness and efficiency by replacing the current, selective income tax reductions with universal accelerated depreciation and the current, selective capital good duty exemptions with universal capital good duty exemption. These findings and recommendations of this study were recently presented to the Minister of Industry & Trade, Minister of Finance, and a group of leading stakeholders.

While the stakeholders received the recommendations of the study positively, they voiced two major concerns which they would like to have addressed before moving forward. First, since the study has demonstrated that fiscal incentives (i.e., income tax reductions and holidays) on which Jordan has relied to attract investment in targeted sectors and regions are ineffective, the stakeholders wonder what other tools are available to government to achieve this end more effectively. Second, the stakeholders wonder if Jordan must offer something more to investors than its competitors, in order to compensate for the fact that it is located in a volatile geopolitical environment. It is worth noting that the basis of these concerns (i.e., the perception that replacing selective income tax reductions with universal accelerated depreciation and selective capital good duty exemptions with universal capital good duty exemption represents a reduction rather than an expansion of incentives) suggests that the value to investors of a simple, transparent corporate taxation program may not yet be fully appreciated by stakeholders.

## 1.2 Objective

The objective of this report is to provide an overview of the non-fiscal measures to attract investment that are available to policymakers in Jordan and currently considered to be most effective, with special reference to encouraging the development of regional areas, competing successfully for projects in targeted sectors, and compensating for being located in a volatile region.

It is important to note that this report provides only a general discussion to inform policymakers of the measures currently in use and the policy options that are open to them. Given the limited time allowed for its development, this report does not attempt to provide specific policy recommendations for Jordan.

<sup>&</sup>lt;sup>1</sup> "Reformulating the Tax Incentive Program in Jordan: Analysis and Recommendations" (August 2004)

## 1.3 Methodology

This report endeavors to achieve its objective in three ways.

First, it briefly surveys both scholarly literature and international trends, in order to identify current theory of international best practices in the areas in question. See Chapter 2 for further information.

Second, it provides a detailed case study of a model country – Ireland, in order to examine the practical application of international best practices in the areas in question. See Chapter 3 for further information.

Third, it briefly reviews Jordan's own experiences in the areas in question, in order to place the previous discussions in a local context. See Chapter 4 for further information.

In an effort to respond most effectively to the Minister's request and to make this report as useful as possible to Jordanian policymakers, the authors have placed the greatest emphasis on the case study and the practical application of international best practices, rather than on the literature review and discussion of theory.

#### CHAPTER 2: INTERNATIONAL BEST PRACTICE REVIEW

#### 2.1 Introduction

A recent study on reformulating Jordan's tax incentive program recommended a complete elimination of tax incentives based on sectoral and regional qualifications accompanied with an import duty exemption and initial allowance for all sectors on their investment in machinery and equipment. That study, having the objective of developing a more efficient, fairer, and simpler tax incentive program, has been well received by leading investment incentive stakeholders including the Ministry of Industry & Trade and the Ministry of Finance.

Focusing on the proposed elimination of sectoral- and regional-based tax incentives, it seemed to be natural for some stakeholders to ask: without a selective tax incentive package, what kind of non-tax incentives can government offer to encourage capital investment in government-preferred business sectors and to aid less developed regions in Jordan? In other words, is there any promising industrial policy and regional development strategy available for the government to implement? To many stakeholders, this question is critical given their observation of the regional difficulties that affect Jordan's economic path on a daily basis. In particular, there appears to be some anxiety to search for non-tax government instruments that would compensate for the regional factors that adversely affect Jordan's investment and business environment.

This chapter intends to search for answers to the above question from an examination of the literature on international experience. Before getting into detailed discussions, several clarifications need to be made.

First, the aforementioned study of the tax treatment of investment in Jordan did not propose to take tax incentives away from future capital investment, but rather recommended an even-handed and more attractive tax incentive package for all investors.

Second, recent studies around the world clearly indicate that government incentives, tax or non-tax, based on a highly selective basis, whether sectoral or regional, have no sustainable successful record. Instead, fiscal or financial subsidies act more likely "as a force that slows innovation, degrades competitiveness, and stunts economic growth." (OECD, 2003)

Third, certain policy instruments aimed at improving institutional settings and nurturing the overall business environment have emerged as powerful tools for promoting capital investment and economic growth in many other countries.

Fourth, regional factors that are perceived by many as negatively affecting Jordan's investment climate have also played a positive role in attracting substantial international aid and providing a unique opportunity to Jordan's economic growth.

Finally, since this paper draws observations from other studies around the world, it should not be taken as direct prescription but merely as an informative reference for Jordan's policy making.

The rest of this chapter is organized in four sections. Sections 2.2 and 2.3 identify the emerging consensus in policy debate towards attracting capital investment and promoting regional development. Section 2.4 specifies and evaluates major non-tax policy instruments that may be used by government. All these discussions will be based on international experiences. Section 2.5 discusses how special incentives offered by countries located in the volatile regions may work against their intentions of attracting capital investment. Section 2.6

concludes the chapter with our suggestions as to what government may consider doing to promote capital investment and regional development.

## 2.2 Government and Private Capital Investment

As is well known, the ultimate goal of private capital investment is profitability. Without seeing the potential for profit, no investor will locate his capital in a country merely to obtain investment incentives. Accordingly, any government that is intent on attracting capital investment should always focus on creating or maintaining those factors that are most important in affecting the profitability of private capital investment.

What are these factors? A recent World Bank survey of multinational firms provides a check list. Table 1 presents the top 10 critical location factors valued by major multinational firms ranked according to the degree of their importance.

Table 2.1: Top 10 Critical Location Factors Valued by Major Multinational Firms

Rank	Local Factor	Degree of Influence (%)
1	Access to customers	77
2	Stable social and political environment	64
3	Ease of doing business	54
4	Reliability and quality of infrastructure and utilities	50
5	Ability to hire technical professionals	39
6	Ability to hire management staff	38
7	Level of corruption	36
8	Cost of labor	33
9	Crime and safety	33
10	Ability to hire skilled laborers	32

Source: World Bank Multilateral Investment Guarantee Agency, "Foreign Direct Investment Survey" (January 2002).

Among these top 10 factors, there is no mention of the availability of direct government "hand-outs," fiscal or financial, let alone fiscal or financial incentives favoring designated sectors. In fact, every one of the 10 factors in Table 2.1 contributes to an ideal business climate that government can help create, maintain, and improve without having to directly dealing with selective potential investors.<sup>2</sup>

Compared to its neighbors, Jordan clearly scores high in several desirable attributes on the list in that it has a "stable social and political environment," good "reliability and quality of infrastructure and utilities," and few concerns about "crime and safety." Accordingly, we shall focus our discussion on three other major elements on the list: access to markets, ease of doing business, and availability of human capital, including technical and managerial professionals and skilled labor.<sup>3</sup>

First, access to markets, or "access to customers." Countries with vast populations such as China and India may appear to have a natural advantage here, but this is not necessarily the case. Without liberalized trade, a large population size may not help. Thus for decades before 1990s, both China and India, owing to their "closed-door" trade policies, lagged far behind development in the four "Asian small dragons" (i.e. Hong Kong, Singapore, Malaysia, and Thailand). By way of contrast, countries with small populations – again the four "Asian small dragons" are an example – succeeded in attracting substantial foreign capital investment. One

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<sup>&</sup>lt;sup>2</sup> Governments in some countries do make efforts to approach selective potential investors with or without success. This happens when the potential investors are prominent firms whose investment intentions are public information and whose capital investment is sought by many potential host jurisdictions. A recent example is the process of Boeing's relocating decision affected by three potential states in the United States.

<sup>&</sup>lt;sup>3</sup> We ignore Factors 7 and 8 (i.e., level of corruption and cost of labor), which requires government's own investigation.

of the reasons for such success might be that it is much easier for a small population to adjust to a changing business climate. Jordan clearly possesses such advantages, not to mention its easy access to substantial neighboring markets which, although troubled by conflict, provide Jordan with tremendous opportunities for market growth.

The second factor in terms of importance is "ease of doing business." For business entities to function effectively, they have to deal with government. The usual questions concerning the ease of doing business in any given country include but are not limited to the following: is it easy to get licenses, register, purchase or rent real estate (land or buildings), get goods through customs, and obtain local consultancy services? And is the tax system helpful in that it not only has low tax costs, but also low compliance costs and eases repatriation of profits? A government has to work hard to ensure that all the concerns of business entities about ease of doing business are accommodated as successfully as, or more successfully, than in its competitor jurisdictions. Without such assurances, costly fiscal or financial incentives may achieve little in attracting potential investors.

Finally, human capital. No modern business activities can be carried out without adequate human capital. Skilled labor takes time to train, especially in those countries that have opened to the outside world only recently. A pool of technical and managerial professional talent may take a generation to educate and shape. Some countries may have attained a rather high national educational level, but because they lag behind international business norms, or lack suitable conditions (both financial and institutional) for accommodating their skilled labor force, these countries may suffer from "brain drains." For the latter countries, therefore, not only are training and education among the top priorities on the agenda of their governments but also "mental and institutional" modernization need to be urgently addressed and pursued. Success in the latter can often help reverse the brain drain, as happened in Ireland in the 1990s. (See Chapter 3 for further information.)

The conclusion from the above is that, to attract capital investment at a sustainable level, government should focus on the overall business climate by providing institutional support rather than by favoring selective sectors through handing out conditional incentives. The international consensus is that sectoral-designated incentives are not worth pursuing.

This conclusion is supported by the fundamental policy shift in recent years in Ireland where government has changed its investment strategy from that of having a conventional industrial policy to a brand-new "enterprise" policy. The former was focused on government favored business sectors, and the latter on nurturing entrepreneurship by providing institutional support for enterprises. (See Chapter 3 for further information.) A similar policy shift has also occurred in Singapore.

#### Box 2.1: Singapore's Reevaluation of its Incentive Program

A recent official evaluation indicates that tax incentives might not add anything to Singapore's already attractive status as a relatively stable economy and therefore a good destination for foreign investment. Singapore has been moving towards a lower corporate tax rate, which has been reduced from 26 percent in 2000 to 21 percent in 2004. It will be further reduced to 20 percent in 2005. This tax reduction in itself suggests a lowering of the value of tax incentives to potential investors. In addition, some incentive programs either have been discontinued (e.g., Hotel Refurbishment Scheme and Tax Deduction for Expenditure on Energy Conservation) or will be discontinued (e.g., Production for Export under the Economic Expansion Incentive Act) as a result of a post-implementation review system. Singapore maintains that the objective of its tax incentive programs is mainly to address market failures (e.g., promoting R&D) and to promote capability development in companies, which is similar to what noted by Irish policy makers as "enterprise policy."

Source: www.wto.org/english/tratop\_e/tpr\_e/tp229\_e.htm

## 2.3 Government and Regional Development

After more than half a century's experiments around the world, a fundamental change is occurring in thinking concerning government policies towards regional development. (OECD, 2003)

With the strong motivation coming from alleviating regional disparities, helping the poor, and integrating a nation's economy, governments in many countries, developed or under developed, have tried various policy instruments to reduce such regional disparities. However, a blunt assessment of these experiments, based on an empirical study of eight industrial and 18 non-industrial countries, is that "regional development policies have failed in almost all countries – federal and unitary alike – to reduce regional inequalities." (Shankar and Shah, 2003)

What went wrong? The problem lay in thinking about what government can and cannot do.

First, regional disparity in most cases is a combined result of historical evolution (e.g., the uneven process of industrialization), inequality in natural resources, differences in institutional settings (e.g. East and West Germany after reunification), and cultural and mental differences (e.g., urban vs. rural sectors). These sources of regional disparity often cannot be changed at the rapid pace desired by governments.

Second, regional economic integration seldom took the route desired by the government - a flow of resources from richer regions to poorer ones. The trend is often the opposite - a flow of resources from poorer regions to the richer ones, which is not necessarily bad, but does seem to some to constitute a waste of government funds and endeavors on the redistribution front.

Finally, past regional development policies have proven incompatible with the emerging trend of globalization, which is characterized by the "increased movements of goods, capital, labor and ideas, in the context of rapid shift of tastes and demographic changes." (OECD, 2003) This unprecedented mobility of almost all products and services and their inputs augmented "both opportunities and risks of regions by allowing them – and their competitors – to reach out to external resources and markets." (OECD, 2003) As a result, a strategy of regional development by promoting the integration of regions into the global economy has become more appropriate than the outdated strategy of bringing all regions into an integrated national economy.

As a result of such rethinking, policy makers in many countries are now taking a different approach, by talking more about "agglomeration economies" instead of "integrated economies," and more about regional competitiveness instead of regional equalization. "Agglomeration economies" refers to a situation where enterprises or activities derive costsaving benefits by locating near each other as clusters, while "integrated economies" refers to a situation where different sectors of an economy (e.g., agricultural and industrial sectors) work together efficiently and are interdependent. In today's global economy, most

<sup>&</sup>lt;sup>4</sup> According to the *MIT Dictionary of Modern Economics*, the definition of "agglomeration economies" is the following: "Cost savings in an economic activity which result from enterprises or activities locating near one another. Examples of such savings include the clustering of retail establishments which permits consumers to make price comparisons without multiple journeys, the efficient use of information where contact between buyers and sellers is facilitated, the spreading of costs of public services and the development of specialized input suppliers serving a number of consumers in the surrounding area. In the last case, cost reductions arise through economies of scale and specialization in the supplying firms, thus they are said to be internal to these firms. Agglomeration economies are an example of external economies where one firm's activities confer benefits on other firms."

competitive economies are often characterized by their greater level of agglomeration, such as India's emergence as an outsourcing destination for major international software producers and financial services providers (e.g., large banks). By contrast, countries that are still pursuing inward, national economic integration are often left behind. Of course, this rethinking does not mean a conflict between "agglomeration economies" and "integrated economies," between "regional competitiveness" and "regional equalization." It simply suggests that a broader stage of economic integration (i.e., from a national to a global stage) through agglomeration economies is a more efficient way of promoting regional development within a country.

An outcome is that, in replacing the various, conventional, regionally-targeted fiscal incentives or financial infusion, a popular approach is to bring together all the stakeholders – government and private – to exploit agglomerations by making full use of local immobile resources, accelerating innovation, and encouraging regional competitiveness on a global stage.

## Box 2.2: New Zealand's New Policy Focus and Regional Partnerships Program

Regional development polices and programs has been a feature of New Zealand's central government public policy environment since 1999, with a strong policy focus on partnership between central government and regions and on locallydriven, broad-based economic development. This policy focus steers away from inter-regional transfer policies or large-scale investment incentives to focus instead on identifying regional specialization, fostering local innovation, developing local capability, and strengthening local institutions, including co-ordination between stakeholders. In the New Zealand context, policies that encourage agglomeration of economic activity and greater specialization may be particularly important, given the country's size and distance from major markets, the large number of very small firms and local government units, and the associated difficulties with sustaining critical mass in industries and institutions. It will often be necessary for groups of firms, supported by public sector institutions, to work together to access export markets. Similarly, neighboring regions and districts may benefit from collaboration, joint initiatives, and resource sharing. The primary concern of policy makers, therefore, has been with levels of institutional support and inter-firm collaboration, the strength of a consensus on a common purpose, and with structures that encourage innovation, skills, and knowledge transfer. To enhance local initiatives and build local capability and institutions for economic development, economic development partnership groups have been formed in 26 New Zealand regions. In addition, capability building and the development of major regional initiatives aligned with a region's area of specialization are under way. Source: OECD (2003)

The implication of this policy switch is that regional-development policy should encourage agglomeration by aiming at areas with high growth potential rather than those with little unused resources. This is not to say that the policy direction in helping the poor is wrong, but the question is what kind of policy actually works. Facing the intensified challenge of this question, policy makers are increasingly linking together regional innovation, industry clusters, and rural development.

#### Box 2.3: Regional Innovation, Industry Clusters, and Rural Development

Research indicates that one major difference in regional economic performance lies in their capacity to innovate – to transfer new ideas and knowledge into high-quality products or services. Innovation is a driver of competitiveness, and *vice versa*. It is vitally important to understand that innovative activity is not limited to "high-tech" sectors.

The capacity for regional innovation is often driven by industry "clusters" – broad networks of companies, suppliers, service firms, academic institutions, and organizations in related industries that together bring new products or services to market with a great advantage of cost-saving through minimized distance between each other.

Furthermore, clusters regularly cross over traditional rural-urban boundaries. Therefore, developing strategies for rural areas need to be designed around "regional hubs" and "rural spokes." Every rural region needs a regional hub to connect to, and the connections to the hub are critical. As a result, policy makers need to move away from thinking about purely "rural strategies" and focus on the economic regions in which entire competitive clusters are found and rural activities are linked to urban centers of economic activity.

Source: OECD (2003)

What does a government need to do to accommodate agglomeration economies, related urbanization, and rural development? There is no doubt that provision of infrastructure is crucial as labor migration requires housing, transportation, public utilities, medical services, education system, and more. Above all, perhaps, institutional support and strategic planning are important for cultivating economic dynamics, which are keys for sustainable growth and development.

What, then, are the main elements of institutional support? And what level of strategic planning should a government have in mind?

Besides a pro-business government leadership that provides stable social and political environment including a sound legal system, the main elements of institutional support for a business-friendly environment may include the following: a close cooperation between government and business sector, an effective coordination within the government, and a sound tax system.

As for strategic planning, it requires a vision of the involved government. The success of Pudong Development Zone in Shanghai, China provides a good example of agglomeration economies. Government planners envisaged Pudong as a modern cosmopolitan region based on its geographic advantages and growth potential. The planning covered not only the development path, in terms of its scale rather than sectoral structure, but also policy instruments, which have been implemented solidly, stage by stage. For example, when Pudong was farmland in 1990, fiscal concessions were granted to any private investors who were willing to build their business there from scratch, but these fiscal concessions were set to expire in 2000 when the envisaged new city would be in place.

#### Box 2.4: Strategic planning: Pudong Development Zone, China

Fourteen years ago, Pudong was a mere farmland in suburban Shanghai, the most populated and richest city in China. It is located at the estuary of Yangzi River to the Pacific and backed by the fertile Yangtze Delta.

In 1990, Pudong was chosen by the Chinese government as a future modern and multifunctional city that would accommodate high value-added business sectors. The total government investment in basic infrastructure amounted \$12 billion. Private investors were encouraged to locate their business in Pudong through various incentives that was clearly set to be expired by 2000. One of the strategies adopted for Pudong development is to develop sectoral clusters one step at a time with no sectoral-designated incentives. These clusters include financial and trade zone, export processing zone, free-trade zone, and high-tech park.

By 2002, we can see following major accomplishments in Pudong.

- GDP was \$15 billion, 20 times that of year 1990
- Average annual earning increased from below \$400 to over \$2,700 for non-farm employees and from almost nothing to almost \$1,000 for farmers
- Skilled labor force increased from less than 60,000 to 250,000
- Industrial structure among primary, secondary, and tertiary sectors changed from 3.7: 76.2: 20.1 to 0.5: 52.9: 46.6.
- The high-tech sectors accounted for 42% of total industrial GDP
- There are 8,500 foreign invested firms from 80 countries and 7000 domestic firms
- Among foreign invested firms, 200 are from top 500 multinational firms around the world, 56 are foreign financial companies, and 8 multinational companies have set up their headquarters in Pudong

The goal of future development for Pudong is to make it a modern cosmopolitan with greater urbanization and a higher GDP of \$50 billion by 2010.

Source: Research report prepared by Yao Yu, Fudan University, Shanghai, China (2004)

To conclude, resource scarcity requires minimizing costly mistakes in regional development. The emerging international consensus in regional development is to focus on areas with high potential for growth and to encourage agglomeration. The key for success in this development policy is to create a good business environment through institutional support and strategic planning.

## 2.4 Policy Instruments: A Common Menu<sup>5</sup>

To encourage capital investment and promote regional development without special tax incentives, useful policy instruments may range from direct government investment to providing institutional support. Within this spectrum, there are also various non-tax incentives ranging from direct and indirect government funding and various special zones. Following is a common menu of five major policy instruments categorized by the directness of government fiscal or financial involvement.

**Table 2.2: Common Policy Instruments** 

Direct Government Investment	
Infrastructure	Roads, ports (air and sea), public utilities, communication, public transits
Education	Schools, universities, libraries
Training	Training facilities (vocational and community)
Medical	Hospitals, clinics, community medical centers
Building facilities	Residential housing and industrial buildings (e.g., R&D facilities) for leasing
Direct Government Funding	
Grants	Certain types of investment projects (e.g., R&D, SMEs)
Loans	Certain types of investment projects (e.g., R&D, SMEs)
Indirect Government Funding	
Interest-subsidized loans	Loans through commercial banks with government-subsidized, low interest rate
Guaranteed loans	Loans through commercial banks with government guarantees
Special Zones	
Enterprise zones	Zones developed in tightly targeted areas to generate inward investment
Export processing zones	Zones designed to export processing with complete business tax exemptions
Theme parks	Tightly-designated zones with readily-available facilities for various business activities with a certain focus, such as high-tech, financial services, professional training, and medical services
Institutional Support	
Law and enforcement	Law and enforcement that ensures the accountability of business contracts of any kind
Co-operation with enterprises	Partnership in various forms to facilitate communication and problem solving
Co-operation among government bodies	Both horizontal and vertical co-operation to ensure highest effectiveness of government dealing with business sector
Efficient, fair, simple tax structure	Low and unified tax rate with broad tax base (i.e., very few loopholes for differentiated taxpayers)
Sound tax administration	Standardized filing and auditing procedures that reduce compliance cost and establish mutual trust

What are the content of these instruments? And what is the appraisal of them based on experiences around the world? In what follows, we shall try to answer these questions

#### **Direct Government Investment in Infrastructure**

Infrastructure construction is a major area where government has to intervene. Infrastructure for an economy that requires government investment ranges from basic infrastructure (i.e., roads, public utilities, and communication systems) to more sophisticated public goods such as education, training, medical services, and research and development facilities.

**Pros.** Investment in basic infrastructure provides minimum physical condition for entrepreneurs to do business. Investment in education and training provides human capital for

AMIR Program

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<sup>&</sup>lt;sup>5</sup> This section is partially drawn from Fallon and Hon (2002) and OECD (2003).

higher value-added economies. Investment in more sophisticated facilities (e.g., medical, R&D) increases ease of doing business for entrepreneurs.

Cons. Limited resources can never meet government's desire for a quick push; hence, careful planning and efficient funding are constantly required. Even good infrastructure may not attract investors if the institutional setting does not ensure the ease of doing business. Investment beyond basic infrastructure can be wasteful if the investment decision is not made based on economic potential (e.g., investment in building R&D facilities can be wasteful if the location chosen for such investment is far from research universities).

#### **Direct Government Funding**

Direct government funding for enterprises includes both grants and loans. Although loans are generally seen as being more cost-effective than grants, they share similar pros and cons.

**Pros.** Direct financial infusion can produce quick result if recipients are rightly chosen.

**Cons.** Limitation in financial sources requires restrictive screening for qualified recipients, which often cause excessive administrative cost. The funding itself can be wasteful if recipients are not properly chosen. The restrictive conditions for such funding may impinge on the economic dynamics (e.g., funding for SMEs based on capital size may discourage SMEs from growing in scale). There is potential for official corruption.

## **Indirect Government Funding**

Indirect government funding for enterprises includes funding through commercial banks with government subsidized low interest or government guarantee for loan recovery. The latter is generally more cost-efficient than the former. It requires more sophisticated co-operation between government and the banking system.

**Pros.** Help funding for enterprise, particularly start-ups. Operated through commercial banks, which can be more cost-efficient (i.e., lower administration cost and lower insolvency risk to government) compared to the direct funding. May help steer government to upgrade its staff's business skills and promote mental modernization.

**Cons.** Can be ineffective if either government officials or the bankers, or both, are not well motivated since the need for such funding may be mostly SMEs or venture capital investors who may not bring quick financial benefit to the banks. May encounter resistance from some government officials who do not see personal benefit from such sophisticated cooperation with private, mainly banking sectors.

#### **Special Zones**

Special zones are tightly designated areas that are developed to attract additional investment. The main types of special zones are special enterprise zones (e.g., JIEC industrial estates in Jordan), export processing zones (e.g., Qualifying Industrial Zones in Jordan), and theme parks.

**Pros.** Tightly designated areas with transparent regulation provide ease of doing business and administrating.

**Cons.** May not generate substantial additional investment but encourage business relocation. The growth in special zones may not sustainable if there is a lack of constant innovation to catch up with the fast-moving international market structure (i.e., demand, supply, pricing, changing consumer taste and international regulations).

#### **Institutional Support**

As mentioned, the core institutional support for capital investment and regional development is a pro-business government leadership that provides stable social and political environment including a sound legal system. Obviously, this core element is beyond the scope of our report.

The other major elements of institutional support consist of, but are not limited to the following.

- A reliable law and enforcement system securing the accountability of business contract of any kind
- Close cooperation between government and the business sector in both strategic planning and specific problem-solving
- An effective co-ordination within the government both horizontally and vertically to ensure all the government units act in the same direction on a fast pace to provide "ease of doing business"
- A sound tax system including both an efficient tax structure, featured by a low tax rate on a broad tax base, and an effective tax administration relying more on taxpayers' self-assessment than administration's compulsory auditing for all

**Pros.** Institutional support is fundamental for business success hence for economic growth. Government investment in institutional support (e.g., placing highly skilled professionals in the government, training for mental modernization, building partnership with the business sector), unlike certain types of visible investment, can benefit the economy in the very long run and with significant spill-over effect.

**Cons.** Investing in institutional support often appears to be of low urgency and hence is pushed to the bottom of government agenda. A reason is that the damage by the lack of institutional support is hard to measure (e.g., how to measure its contribution to failure in attracting capital investment?). On the other hand, investing in institutional support (e.g., upgrading the knowledge of government staff on how to deal with business according to the international norm) takes time to show results.

#### 2.5 Government and Regional Volatility

The literature is largely silent about measures taken to compensate for the perceived locational disadvantage of volatility in neighboring regions.

One study (Lim, 1983), however, suggests that overly generous incentives are seen by potential foreign investors as a danger signal and hence a disincentive. This conclusion is based the observation of a significant negative relationship between fiscal incentives and FDI flows in 27 developing countries. For this reason, special incentive measures to compensate for being located in a volatile region may in fact have the unintended consequence of reinforcing investor misperceptions, rather than dispelling them. Therefore, the most effective means of addressing this issue may be through non-incentive measures, including image promotion and risk insurance as elaborated below.

#### Promotion

Since the disadvantage of being located in a volatile region is largely one of *perception* rather than reality, one of the most effective means of compensating for that disadvantage is simply addressing that misperception through focused promotion. Personal testimonials from nationals of the country in question (i.e., investment promotion officers), written testimonials from reputable firms located in that country (i.e., reference selling) or reputable figures who

have visited that country, and articles written by visiting journalists are among the powerful tools that can be employed to change perceptions.

A country also may publicize its ranking in risk assessments that are conducted and published by reputable third parties, such as the Economist Intelligence Unit (EIU). Like testimonials, such assessments are credible with potential investors and reasonably well-informed, resulting in a lower assessment of risk than what is perceived by investors. For example, in its 2002 Middle East/North Africa Country Risk Ratings, EIU ranked Jordan at the same risk level as Tunisia and Morocco, both of which are successful competitors for regional investment.

In addition, a country may enhance its promotional efforts by targeting its promotion on those individuals for whom the perception gap may be relatively small in the first place. For example, nationals of the country in question living abroad, individuals who have common ancestry with that country, or individuals who have lived in that region will likely have a deeper understanding of that country and its regional situation. As such, they are in a better position to evaluate the associated risks accurately.

#### Insurance

In spite of promotional efforts such as those mentioned above, concerns about uncertain political environments and perceptions of political risk often inhibit investment, with FDI often going to a handful of countries and leaving the many economies largely ignored. In response, governments may offer a variety of insurance schemes at preferential rates to hedge against those risks. Governments frequently offer insurance to cover certain types of risks such as exchange rate volatility and currency devaluation, as well as non-commercial risks such as expropriation and political turmoil. The latter is often provided through international agencies. The leading agency of this kind is the World Bank Multilateral Investment Guarantee Agency (MIGA).

MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA's coverage is against the following risks.

- War and civil disturbance
- Transfer restriction
- Expropriation
- Breach of contract
- Qualified investments

See Annex 7 for more information about MIGA and its investment insurance services.

#### **Bilateral Investment Treaties**

Governments in countries perceived to be risky may establish bilateral investment treaties with targeted investment-source countries, as such treaties often provide mutually-recognized guarantees in such areas as war damages, expropriation, and dispute resolution.

For example, Article 6 of the bilateral investment treaty between Jordan and the United States addresses "compensation for damages due to war and similar events" and entitles investments covered by the treaty to national or most-favored nation treatment with respect to any measure relating to losses suffered in a party's territory owing to war or other armed conflict, civil disturbances, or similar events. By contract, the treaty creates an unconditional obligation for each country to pay compensation for such losses when the losses result from requisitioning or from destruction not required by the necessary of the situation.

Through such guarantees, bilateral investment treaties may to alleviate investor concerns in targeted investment-source countries about uncertain political environments and alter their evaluation of political risk. In this way, they may be considered a political equivalent of non-commercial risk insurance.

## 2.6 Preliminary Thoughts for Jordan

Based on the above analysis, we present suggestions as to what Jordanian policymakers may consider doing to attract increased capital investment and promote regional development in Jordan.

#### **Direct Government Investment in Infrastructure**

In cases where basic infrastructure is already in place, available funds for future government investment might be planned with an eye to catalyzing agglomeration economies. Geographic areas for such investment should be chosen based on their resources and hence growth potential. These resources include closeness to ports, universities, tourism destinations, and potential markets.

#### **Direct Government Funding**

We have no strong preference for this instrument out of concerns for the cons presented in the previous section. However, if funding is readily available, priority might be given to helping start-up businesses with strong entrepreneurship and innovative ideas.

## **Indirect Government Funding**

Government should initiate a partnership with the banking system to make such funding a norm in the country. Enterprises seeking such loans are often those with a high probability to succeed based on a solid feasibility study and hence deserve the government's support. The choice between government-guaranteed loans and government-subsidized, low-interest loans should be based on minimizing the risk to government.

#### **Special Zones**

Jordan has significant experience in developing special zones. It is important to conduct regular evaluation of all types of special zones in terms of their successes and failures. Some of them may be used as a base for promoting agglomeration (e.g., Aqaba Special Economic Zone); some may need to be infused with more innovative ideas for sustainable growth taking into account the changing structure of international trade (e.g., Qualifying Industrial Zones); and others may need to be consolidated with more careful planning (e.g., industrial estates).

#### **Institutional Support**

In a fast-paced business world, the agenda for government to provide adequate institutional support will be always full. Our list of potential support measures below is neither exhaustive nor prioritized. It is simply meant to illustrate those measures that policymakers may consider.

Government might build close partnerships with the business sector for strategic planning and problem-solving. "Jordan Vision 2020" is an example of such a partnership. Critical to such efforts is the regular appraisal of what has been accomplished and what needs to be pursued further. Only solid implementation of a shared vision will strengthen such partnerships.

Government might take steps to plan strategically and to promote agglomeration economies with innovative ideas and within Jordan's unique regional context. Thus, ideas contributed by various parties in the past envisaging Jordan as a center in the region that provides high value-added services, ranging from educational, medical, training, high-tech, and professional

(e.g., legal, accounting, urban planning), might be further explored through feasibility studies. Some of these ideas might be implemented, if they are proven feasible.

Government might make staff training a part of its regular business, with the objectives of "skill upgrading" and "mental modernization." The content of this regular training includes how to coordinate within government both horizontally and vertically, as well as how to deal with the enterprise sector on specific issues. This type of regular training is crucial to ensure the efficiency and effectiveness of a pro-business government.

Government might improve tax administration with a view to building mutual trust between tax authority and business taxpayers. This improvement, in our opinion, is more critical to "ease of doing business" than revenue collection, although the latter is not unimportant. Highly-educated professionals and experienced entrepreneurs are invaluable assets to Jordan. They should not be upset by a tax administration with a misdirected mindset (e.g., seeing taxpayers as potential offenders). One of the efficient channels for improving tax administration is to foster a private accounting/auditing services sector, which will help not only promote the understanding and compliance of existing tax laws by business taxpayers, but also ease the tax auditing and collection burden of the revenue authority.

#### Non-commercial Risk Insurance

Given Jordan's strong position to appeal for aid from donor organizations, it might explore the possibility of obtaining non-commercial risk insurance from MIGA at a subsidized rate or even free of charge for all incoming investments for a certain number of years. This might mitigate any concerns regarding regional volatility and serve as "creative asset" to enhance Jordan's competitiveness for FDI.

#### **CHAPTER 3: IRISH CASE STUDY**

## 3.1 Background

#### Ireland as a Model for Jordan

Due both to its success in transforming its economy through the attraction of foreign direct investment (FDI) and its numerous similarities with Jordan (e.g., small domestic market, poor in natural resources), Ireland has been used in the past as a model for Jordan in the areas of economic development (i.e., Jordan Vision 2020 in 1999) and investment promotion institutions (i.e., Investment Task Force in 2001). In the areas considered by this report (i.e., non-fiscal measures to address regional development, regional volatility, and sectoral targeting), Ireland is again an appropriate model for Jordan for four reasons. First, Ireland has struggled to distribute the benefits of its economic success beyond Dublin (the capital city) and the surrounding east coast to the relatively undeveloped and poor regional areas, such as the Border, Midland, and Western (BMW) region. Second, Ireland has created its economic success story in spite of civil unrest and violence in neighboring Northern Ireland. Third, Ireland has successfully attracted investment in targeted sectors.

Fourth and most importantly, however, Ireland has already completed an evolution in thinking about investment promotion similar to the one that Jordan is currently experiencing. From 1960 until the late 1980s, Ireland followed industrial development policies based on "picking winners" and government intervention in markets through discretionary treatment and support. In the early 1990s, following a critical review of these policies that questioned their effectiveness, Ireland shifted its focus to national competitiveness and government investment in improving the business environment. See Section 3.4 for further information.

## **Success Story in Brief**

Ireland's economic success has been well documented elsewhere. As the Table 3.1 summarizes, the Irish economy underwent an unparalleled transformation in little more than half a decade during the 1990s.

Table 3.1: Measures of Ireland's Economic Success

Economic Performance Indicators	1993	2003
Unemployment (%)	15.7	4.7
Numbers Employed (million)	1.2	1.8
Value of Exports (€ billion)	28.5	109.3
Government Debt (% of GNP)	93	34
Corporation Tax (%)	10/40	12.5/25
FDI Inflows (US\$ million per year)	140 (1980s)	2,700 (1990s)
Irish GDP per Capita (% of EU15 DGP per capita)	69	125

Source: Government of Ireland, Department of Finance (2004)

The annual growth rate during the period from 1994 to 2000 was around 8%, twice the trend rate achieved – the first half of the 1980s apart – over the period from the 1960s to the early 1990s. Because this growth was both high and prolonged, it had a major impact on many measures of economic and social performance, and sustained progress was made in tackling within a few years problems that were previously thought to be intractable. For example, Ireland went from a state of large-scale labor surplus to one of labor shortage, as employment increased by 600,000 (50%). By contrast, over the period 1966 to 1986, the net rise in employment amounted to only 25,000. From 1983 to 1990, net *outward* migration averaged 25,000 per year. From 1997 to 2002, the trend reversed, and net *inward* migration averaged almost 22,000 per year.

#### **Success Factors**

Although there are differences of opinion about the weight to be accorded to each, there is broad agreement that Ireland's unprecedented economic advances resulted from the interaction of different (and sometimes mutually reinforcing) factors. While some of these factors were exogenous and out of government's control, the majority were endogenous and influenced by government. Since endogenous factors influenced by government will be of special interest to Jordanian policymakers, as they might replicate them in Jordan, they are described in detail. It is interesting to note that they are closely aligned with those factors identified by the aforementioned World Bank survey of multinational firms as being most critical to their investment location decisions. (See Section 2.1 for further information.) Exogenous factors out of government's control are described briefly to provide the complete context for Ireland's success story.

#### **Exogenous Factors**

**Surging global trade.** World trade grew at an annual average rate of almost 7 percent during the 1990s, twice the rate of real GDP growth. As one of the most open economies in the world (See the following section entitled "Endogenous Factors" for further information.), Ireland capitalized on this surging trade.

**Adequate labor supply.** Ireland was unique in Europe in having a large labor pool available in the 1990s, resulting from a "baby boom" in the 1970s, a previously low rate of female participation in the workforce, and a sizable pool of emigrants willing to return home. Record rates of growth could not have been sustained without this large increase in labor supply, which also helped to moderate wage increases and maintain competitiveness.

**European market opportunity.** The establishment of the European Single Market in 1993 increased the interest of firms in setting up production bases in Europe. With its strong competitive position and robust effort to attract inward investment (See the following section entitled "Endogenous Factors" for further information.), Ireland was able to attract a disproportional amount of this new investment. Although it accounts for just one percent of the European Union population, over 10 percent of all foreign-owned, green-field manufacturing projects coming into Europe during the 1990s located in Ireland.

**Traditional links with United States.** With approximately 40 million Americans of Irish descent, Ireland enjoys strong traditional links with United States. As much of the interest in setting up production bases in Europe upon the establishment of the European Single Market in 1993 came from U.S. firms, Ireland capitalized on those links in the course of its investment promotion effort.

## **Endogenous Factors**

**Market access.** By joining the European Union, Ireland provided access to one of the world's largest and richest markets, effectively expanding its small and relatively poor domestic market.

**Macroeconomic stability.** Ireland took action to correct its public finances in the late 1980s, leading to marked improvements in the business environment, such as lower interest rates.

Competitive business environment. Beginning in the early 1990s, Ireland reprioritized its investment promotion efforts from providing financial support for specific projects to improving the competitiveness of its environment for all projects (i.e., making it easier and less expensive to do business). As a result, it reduced its grant support for internationally mobile investments on average (even at the cost of losing high-cost projects) and shifted decisively away from grants for indigenous enterprise towards equity and venture capital.

**Focus on infrastructure.** Beginning in the early 1990s, Ireland has undertaken systematic programs to lower the cost and improve the quality of infrastructure and public utilities (i.e., telecommunications, energy, roads, and ports) through investment and competition, in an effort to enhance the overall environment and reduce the costs for doing business.

**Skilled workforce.** Since the 1960s, Ireland has invested disproportionately in its educational system. In the early 1990s, Ireland focused that system on the acquisition marketable skills, countering the bias towards traditional professions and the liberal arts. Consequently, *The 1998 Global Competitiveness Report* ranked Ireland first in the world for the fit between the educational system and the needs of the economy, as science and technology graduates formed a higher proportion of the 20-29 age group there than in the United States, Japan, or any other E.U. country.

**Competitive wages.** Ireland forged a series of Social Partnership Agreements from 1987 onwards between key stakeholders (i.e., government, employers, labor unions, the agriculture sector, and the voluntary sector), resulting in moderate wage increases and a significant improvement in competitiveness.

**Tax reform.** Beginning in the early 1990s, Ireland reformed its income tax system, making it more equitable, transparent, and fair. Multileveled tax rates for trading activities were unified, discretionary relief and allowances were reduced, and "oppressive and unfair" personal income tax measures were improved. Foreign investors appreciated the simple system for its predictability and low compliance costs.

**Attractive incentives.** Ireland offered an attractive package of investment incentives available to both foreign and domestic firms, including a low rate of taxation and a range of financial supports.

**Robust supporting institutions.** Ireland's investment promotion effort is driven by a group of state agencies that are tightly focused, closely coordinated, and generously resourced. Forfás formulates and recommends enterprise policy, IDA Ireland attracts internationally mobile investment, and Enterprise Ireland develops indigenous industry.

Emphasis on FDI. The rapid expansion of foreign-owned firms in Ireland made a number of positive impacts on the rest of its economy. First, the expenditures of foreign-owned firms in domestic materials, wages, and services were substantial (e.g., €17 billion in 2002). Second, the boom in exports by foreign-owned firms led to significantly increased tax revenues, which were used to reduce both corporate and personal rates of taxation without undermining financial stability. As a result, the "tax wedge" (i.e., the percentage of employees' gross salaries accounted for by taxation and social security) declined in Ireland during the latter part of the 1990s to the lowest level in Europe, making Ireland an even more attractive investment location.

**Successful targeting.** Ireland's strategy of attracting investment in high-value niche areas, such as chemicals, pharmaceuticals, electronics, computers, instrumentation and medical devices, in the 1960s and 1970s (because they were perceived to have above-average international growth potential) and knowledge-based activities, such as software development and financial services, in the 1980s (because they were considered to be a good fit with the supply of skilled manpower and graduates) paid dividends as these key sectors made a critical contribution to output, exports, and employment.

#### 3.2 Approach to General Enterprise Development

Before examining the specific areas considered by this report (i.e., non-fiscal measures to address regional development, regional volatility, and sectoral targeting), it is important to

understand Ireland's general approach to enterprise development, as it is the basis for all other things related to Ireland's current model for investment promotion.

Ireland strongly believes that the most important determinant of the strength of a country's enterprise sector is the quality of its environment for enterprise, which includes the following.

- Education and skills
- Research and development
- Infrastructure
- Taxation
- Finance
- Competition
- Regulation and public administration

If the environment for enterprise is characterized by fundamental weaknesses, the resultant obstacles to enterprise development cannot be remedied by special measures (e.g., tax relief) or the activities of development agencies (e.g., promotion, grants). At one time, such measures and activities were seen in Ireland to be a compensation for deficiencies in the enterprise environment. This has proven neither a solid foundation for enterprise development, nor a sound strategy for development agencies.

In fact, most commentators now agree that steps taken to improve the overall business environment, coupled with exogenous factors, played the primary role in Ireland's economic boom in the 1990s. The granting of incentives, both fiscal and non-fiscal, to individual firms played an important, but secondary role.

This conviction is clearly reflected in Ireland's current enterprise policy, which concentrates on improving the business environment by enhancing the quality of infrastructure, providing equity and venture capital for indigenous industry, building R&D capability, putting robust supporting institutions in place, and providing a low overall tax environment. This is the policy agenda that Ireland is currently pursuing and will continue pursue in the future.

This policy shifts away decisively from the provision of special treatment to individual firms that dominated in the past. Ireland has always provided a range of both fiscal and non-fiscal incentives as a means of attracting investment and still does so today. However, the nature of these incentives has changed over the years. In the early years of Ireland's economic development, much more reliance was placed on the provision of investment incentives directly to firms. In retrospect, however, it can be concluded that the provision of large amounts of incentives did not necessarily result in the creation of a corresponding amount of additional employment. Today, Ireland still provides incentives in different ways. Following are three examples. First, Ireland still uses grants to attract investment by foreign firms. Whereas grants were a principal means of competing for investment in the past, Ireland continues to offer grants today mainly because various grant schemes are still used by other countries with whom it is competing for investment. This is to say, grants remain an important marketing tool for the attraction of FDI, but not a competitive strength. Second, Enterprise Ireland has substantially changed the focus of its support for indigenous companies from grants to equity, venture capital, and other repayable forms of support. Whereas grants were used to subsidize basic production in the past, they are used today to stimulate high-risk activities, such as R&D. Third, Ireland uses grants today to generate multiplier effects by supporting cluster development and creating business linkages, as opposed simply to subsidizing the basic production of individual firms in the past.

In the past, the chief goal of Irish enterprise policy was job creation through the provision of grants and other incentives directly to firms in order to stimulate their growth. The challenge

now facing Ireland is for enterprise policy and the enterprise sector to raise the value of goods and services that are produced, as well as to produce them more efficiently. This will require the complementary strengthening of business enterprise and the business environment. Advancing the enterprise sector up the value chain cannot be achieved without advancing the enterprise environment (i.e., education, research and development, infrastructure, regulation, public administration) up the value chain also. The enterprise development agencies can make an important contribution to this strategic challenge at a number of levels.

- At the level of the overall business environment, by identifying priority areas and actions needed to ensure a high-quality business environment and infrastructure, and working with central and local government, state agencies, and other bodies to address these needs
- At enterprise level, by assisting in the development of factors associated with strong clusters, such as effective partnerships between third-level institutions and enterprises
- At firm level, by promoting new high-value businesses, while helping to raise value and efficiency levels among existing firms
- Regionally, by promoting enterprise development in rural areas and developing regional capabilities and infrastructure

Investments by such leading multinational firms as Intel, Apple, Oracle, AOL, and Takeda Chemical Industries demonstrate the efficacy of Ireland's current approach. Case studies of these investments reveal that these firms have all elected to locate in Ireland due to factors more related to its business environment (e.g., skilled labor) than the specific, targeted incentives (e.g., tax holidays or grants) that it offers. See Annex 2 for further information.

Section 3.3 presents the tools currently used by Irish policymakers in support of this general approach to enterprise development.

# 3.3 Tools Used by Policymakers for General Enterprise Development Direct Government Investment in Infrastructure

The most fundamental tool that Ireland uses to pursue its current enterprise policy is through substantial, direct government spending. The National Development Plan 2000-2006 is perhaps the clearest indication of both the means that Ireland employs to pursue its enterprise policy, as well as the priorities of that policy.

Table 3.2: National Development Plan 2000-2006 Expenditure Summary

Area	Amount (€ billions)
Economic and Social Infrastructure	22.4
Employment and Human Resources	12.7
Productive Sector	5.8
Southern and Eastern Region	3.8
Border, Midlands and West Region	2.7
Rural Development Program	4.3
Total	51.7

As Table 3.2 demonstrates, Ireland will spend a total €1.7 billion, or €7.4 billion per year, in key areas from 2000 to 2006, in order to pursue its enterprise policy. This is to say, Ireland is investing in its future development.

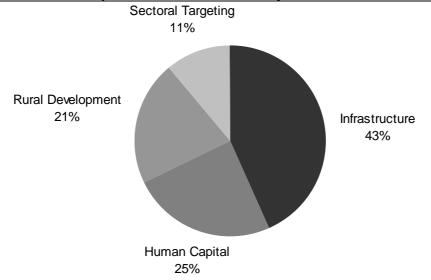


Figure 3.1: National Development Plan 2000-2006 Policy Priorities

Figure 2.1 reveals the priorities off Ireland's enterprise policy. Improving the competitiveness of its business environment appears to be Ireland's highest priority, as it is dedicating €35.1 billion or 68 percent of its development expenditure to infrastructure (i.e., improvement of roads, public transport, and environmental services) and human capital (i.e., human resource development, employment services). Developing regional areas appears to be Ireland's second priority, as it is dedicating €0.8 billion or 21 percent of its development expenditure to investment in non-national roads; rural water, waste management, and communications; regional ports and airports; and micro-enterprise. Direct support to industry, formerly Ireland's highest priority, now comes last, with €5.8 billion or 11 percent of development expenditure dedicated to a range of grants and equity financing. The most relevant components of this direct support to industry are described in detail in the section that follows entitled "Direct Government Funding."

#### Advance Factories

Advance factory buildings are now almost exclusively constructed by the private sector with the IDA marketing the buildings to potential clients. This activity is self-financing, and no Exchequer subsidy is now required. However, IDA will still construct buildings where there is a need that is unsatisfied by the private sector, especially in some regional and rural areas. Enterprise Ireland also constructs incubator facilities out of Exchequer resources, especially in the regional areas, in order to stimulate start-ups. This stands in contrast to the previous practice, whereby IDA provided ready-to-occupy factory buildings with Exchequer funds for purchase or rental by both foreign-owned and Irish firms, as the private sector was reluctant to take the development risk.

## **Institutional Support**

Enterprise development agencies have played a strong role in the implementation of Ireland's enterprise policy since the establishment the first agency in 1950, IDA. Today, there is a well-developed network of agencies to support each of the main constituencies of the enterprise sector.

The three main agencies are IDA Ireland, which is responsible for attracting FDI; Enterprise Ireland, which is responsible for developing indigenous industry; and Forfás, which is

responsible for recommending national enterprise policy to government, as well as coordinating and monitoring the implementation of that policy by the other two agencies.

In addition, Forfás has established a number of councils to provide expert advice in key policy areas from the perspective of the private sector, such as the National Competitiveness Council, the Expert Group on Future Skills Needs, and the Irish Council for Science, Technology, and Innovation. The Technology Foresight report of the Irish Council for Science, Technology and Innovation led directly to the establishment of Science Foundation Ireland, a €700 million fund for basic research in biotechnology and information and communications technology (ICT).

The role of these agencies and councils in establishing and implementing Ireland's enterprise policy cannot be underestimated.

The enterprise budget of the Department of Enterprise Trade and Employment amounted to €640 million in 2002. Over the period 1990-2002, €7 billion was spent by the development agencies on enterprise promotion.

## **Indirect Government Funding**

Equity Finance (Irish Firms)

Ireland currently provides direct financial support for the development of domestic firms in the form of preference shares and small equity stakes (i.e., up to 10%), as well as grants. (See the section that follows entitled "Grant Support" for further information regarding grants available to Irish firms.) It is important to note that repayable components of assistance packages are typically very high. (Repayment depends, however, on the company's ability to repay. For example, preference shares can only be legally repaid if the company is profitable and has sufficient reserves with which to do so.)

Ireland's current, strong emphasis on equity and repayable mechanisms stands in contrast to its previous policy of placing heavy reliance on grants, which was found in the early 1990s to be an insufficient mechanism for fostering competitive enterprises due to an over-reliance on the state and the encouragement of a hand-out mentality.

It is worth noting that the policy of taking small equity stakes in companies as part of the package of support is not only more effective in promoting the development of competitive firms, but also more cost effective for the state. Enterprise Ireland, the development agency that administers this assistance, derived spectacular gains in recent years when it sold some of the equity stakes it had acquired in emerging high tech firms: €14.6 million in 1998, €34.3 million in 1999, and €101.6 million in 2000 at the height of the high-tech boom.

#### Venture Capital (Irish Firms)

In line with its focus on equity capital, Enterprise Ireland is also currently creating a venture capital market for smaller Irish companies, which has not existed previously. In the period 1996-2000, for example, Enterprise Ireland helped to establish 17 new venture capital funds which invested €85 million in over 100 companies. These funds are aimed at smaller firms in start-up or early stages and generally expect a rate of return on investment that is somewhat lower than the full commercial rate. Over half of them focus on the development of targeted regions or sectors. These funds were being created in partnership with the private sector and the European Union, both of which contribute to the capitalization of the funds, but they are managed commercially by the private sector. Enterprise Ireland does not have any role in selecting individual investments. The creation of these funds has transformed the venture capital market for smaller companies in Ireland. Under the National Development Plan 2000-

2006, this effort will continue, with a total of €400 million planned for investment in further funds. Enterprise Ireland has committed €100 million of this total amount.

#### Debt Finance (Irish Firms)

In addition to equity finance in the form of state investment and venture capital, Ireland has ensured that debt finance on favorable terms (i.e., long-term loans at low interest rates) is also available to small- and medium-sized enterprises (SME).

In the early 1990s, banks were willing to offer loans to SMEs only on the most stringent terms (i.e., short-term loans at high interest rates). Government created a scheme to address this problem, whereby it offered an interest subsidy of approximately three percent for the loans in question (a time when lending rates to small business were around 10 percent), if the banks assumed the credit risk. There was a ceiling on the amount of an individual loan for the purposes of the interest subsidy. Banks selected the customers to whom they loaned based on their own credit criteria and took security for the loan in the normal way, excluding a borrower's family home. The loans were made available to all sectors, in contrast with Ireland's previous focus on manufacturing or internationally traded services firms. Consequently, some €400 million in long-term loans (i.e., up to 10 years) were provided by banks to SMEs.

This scheme was so successful in its early years, building the confidence of banks in lending to small business, that banks have been lending to SMEs without interest subsidies or other state incentives since that time.

It is again interesting to note that Ireland's recent emphasis on market-based finance stands in contrast to its previous, exclusive utilization of grant aid and tax schemes. In this case, it is further interesting to note that this shift was made at the request of the beneficiary companies themselves.

#### **Direct Government Funding**

#### Research and Development Support

Ireland currently invests substantially in building its national research and development (R&D) capability, in order to foster the development of a knowledge-based economy. Comparing poorly in the past with other OECD countries in the commitment of resources to R&D, Ireland is currently taking a number of initiatives to improve its position.

Almost 50 percent of the €.8 billion Productive Sector Program contained in the National Development Plan 2000-2006 is for Research, Development, and Technological Innovation. This includes the establishment of Science Foundation Ireland, a €700 million fund for basic research in biotechnology and ICT, the most significant investment ever made by Ireland in this area.

A number of dedicated programs have been set up to provide support for academic personnel who wish to commercialize their research. These include a Research Innovation Fund to back research ideas with commercial potential, a Campus Companies Program to support the establishment of new campus-based enterprises, and a Business Incubation Center program to provide funds to develop and expand incubation facilities on college campuses. In keeping with the policy of repayability, small equity stakes are taken in high potential start-up companies.

A tax credit for R&D activity is also available. See the previous section entitled "Fiscal Incentives" for further information.

Grant support for R&D activity is available. See the following section entitled "Grant Support" for further information.

#### **Grant Support**

Grants are available from IDA Ireland for both manufacturing and internationally traded services. In general, IDA Ireland can provide a range of grant aid for new industry, including capital grants and employment grants. Grants are also available towards investment in R&D facilities and major training initiatives.

Capital grants are available to subsidize expenditure on the purchase of land and buildings, as well as new plant and equipment, in an effort to assist manufacturing and internationally traded services companies to start-up and expand. Estimated capital costs and eligible assets are agreed with IDA Ireland. A grant rate and payment schedule is then negotiated. The level of grant aid available varies, and grants are awarded on the basis of a percentage of the eligible capital cost incurred. The maximum rate allowed is determined by E.U. State Aid rules, and depends partly on the location. The maximum rate for capital grants, which is only allowed in the border, midlands and western regions, is 40% of cost and drops to 17.5% in Dublin. In practice, the rate tends to be much lower, unless the project is of exceptional quality. The schedule of capital grant payments is usually linked to a job creation program and a limit on the amount of capital grant payable by IDA Ireland in each 12 month period will be incorporated into the grant agreement. Stamp duty, foreign exchange losses, and incidental expenditure (e.g., legal fees) arising from the purchase of land and buildings do not qualify for capital grant assistance. The grant agreement will normally place restrictions on the disposal of assets that have been grant-aided.

Employment grants are used to encourage firms to increase employment. They are available where permanent full-time positions are created and are the most common type of grant awarded, particularly for internationally traded service companies. Amounts paid depend on the location of the project, the level of investment involved, the activities undertaken, and the skill level of the employee (i.e., typically the higher the skill level, the higher the grant). Amounts of €1,250 to €12,500 per job are indicative of the range of grant assistance available. In cases where a company employs a significant number of part-time employees because of the nature of its work, IDA Ireland may agree to grant-aid a number of full-time equivalent jobs (e.g., two half-time jobs may be considered as equivalent to one full-time job).

**R&D** grants are available to companies already established in Ireland in two schemes. The first helps fund the establishment or upgrading of permanent R&D functions and facilities, while the second provides support for high-quality, high-risk R&D projects for companies that already have a significant R&D function in Ireland. Projects can relate to either product or process development and are generally available to manufacturing and internationally traded services businesses in Ireland. Routine product development is not supported. The rate of grant varies according to the scale of the development relative to the company, potential impact on long run R&D capability, and geographical location. Overseas companies operating in Ireland are also eligible to apply for R&D grants awarded by the European Union under the Sixth Framework Programme. To qualify for such grants, Irish-based companies must work in collaboration with a company, university, or research institute in at least one other E.U. country.

**Training grants,** which normally take the form of funding substantial in-company or external training programs, are provided to help satisfy the need for skilled labor. Applicant companies submit proposed training programs, and IDA Ireland agrees to offer grant aid for these programs to an agreed level.

**Management development grants** are provided as an incentive to firms to employ key management staff. Typically, a subsidy of 50 percent of the salary of a number of key executives was paid for up to two years. More widely used in the past, management development grants continue to be used by both IDA and Enterprise Ireland.

See Annex 3 for further information regarding grant support administered by IDA Ireland.

#### **Fiscal Incentives**

Ireland does not offer fiscal incentives for investment in the form of discretionary income tax holidays or reductions, with the exception of three tax schemes described below which are relatively insignificant in terms of Exchequer resources. Instead, it offers a 12.5 percent tax rate on the profits of all trading activities and a 25 percent rate on the profits of all non-trading activities (i.e., interest income, rental income), without reference to such conditions as sector, geographic area, or market orientation. This low, flat rate of taxation is a general measure applying to all, rather than an targeted incentive applying only to certain preferred activities. Surveys conducted by Forfás show that the additional economic activity generated by (mainly foreign) firms at the low rate of corporate income tax gives rise to significant corporate tax revenue. Thus, the low rate of corporate income tax has become revenue maximizing for government.

An R&D tax credit was recently introduced to provide an incentive for undertaking more R&D activity. The scheme provides an allowance of 20 percent of incremental R&D expenditure made in a year (over a base period) to be written off against corporate income tax. This scheme is attractive to larger and more profitable firms, such as foreign-owned companies. This scheme replaces an R&D tax relief scheme which previously operated on the basis of providing a tax allowance calculated as a multiple of R&D expenditure. Because the tax allowance was capped at a low level, it did not attract large R&D performers and was therefore repealed.

In addition to the R&D tax credit, there are two other, minor discretionary tax schemes currently in use. The first is the Business Expansion Scheme, which provides a tax break for individuals investing in smaller Irish companies in order to encourage domestic investment. The second is a scheme to allow tax-free dividends from patents in order to encourage innovation.

Research shows that the low, flat rate of corporation tax is the fiscal measure that is most attractive to foreign-owned firms. Other tax incentive schemes are essentially supplementary to this measure.

## 3.4 Evolution of Approach to General Enterprise Development

The evolution of Ireland's current approach to enterprise development can be traced to the period of 1960-1980. During this period, a major transformation of the Irish economy took place under the impetus of a significant change in policy that focused on the active promotion of both foreign and domestic investment and extended the range of investment incentives on offer to individual firms.

## **Policy Summary**

During the period of 1960-1980, Ireland adopted an enterprise policy that included the following.

- Shift from self-sufficiency to economic openness and from the substitution of imports to the promotion of exports
- Abolition of restrictions on the foreign ownership of industry

- Active encouragement of foreign firms to set up plants in Ireland
- Dismantling of import tariffs and other barriers that had insulated domestic producers from international competition. (Ireland joined the European Union in 1973, which led to the phasing out of all tariffs over five years.)
- Establishment of Foir Teoranta, a state rescue agency that assisted (mainly Irishowned) firms to overcome the difficulties posed by exposure to international competition
- Provision of higher levels of incentives for firms to locate in rural areas, in order to encourage dispersion of industry throughout all regions

#### **Fiscal Incentives**

During this period and in support of this policy, Ireland offered the following fiscal incentives to prospective investors.

- 10 percent corporate income tax on all manufacturing activities and certain internationally traded service activities, such as software development. This rate was initially guaranteed until 2000 and later extended until 2010.
- **100 percent depreciation allowances** on the cost of new plant and machinery acquired for manufacturing activities. This was available against profits taxable at the 10 percent rate.
- Tax efficient loans by the banking system, known as Section 84 loans. These took the form of loans in high interest rate foreign currencies (e.g., Greek drachma, Turkish lira), which conferred a very low effective rate of interest on companies when combined with a currency swap mechanism. The contracts were structured so that the interest paid to the banks depended on the performance of the company and was therefore regarded as a dividend payment. Under Irish tax law, such dividends were received tax-free in the hands of the bank. At one stage in the late 1980s, this market amounted to €2.5 billion.
- Discretionary tax schemes, such as the following.
  - Tax breaks for individuals investing in smaller Irish companies under the Business Expansion Scheme
  - Tax-free dividends from manufacturing activity and patents

#### **Direct Government Funding**

During this period, development agencies such as IDA greatly extended the range and quantum of grants provided to manufacturing industry.

**Capital grants** were provided to assist manufacturing companies to start-up operations. These consisted of 66 percent (maximum rate) of the cost of land and buildings, as well as 50 percent of the cost of new machinery. In order to provide an incentive to firms to set-up in rural and under-developed areas of the country, which was policy priority, grants were increased to 100 percent (maximum rate) of the cost of land and buildings in those areas.

**Employment grants** were provided to encourage firms to increase employment. These became increasingly popular over the years in line with the focus of attracting knowledge-based projects which had a low capital cost but a high skilled employment content. They took the form of an amount of Euro per job created, which was subject to negotiation. Up to €12,500 per job created was normally allowed.

**Training grants,** which normally took the form of funding in-company or external training schemes, were provided to satisfy the need for skilled labor.

**Management development grants** were provided as an incentive to firms to employ key management staff. Typically, a subsidy of 50 percent of the salary of a number of key executives was paid for up to two years.

**Rent subsidies** were provided to defray the cost to industrialists of renting factory and office buildings from IDA.

**Loans and management support** were provided to firms experiencing difficulties by Foir Teoranta.

## **Indirect Government Funding**

**Loan Guarantees.** IDA established a loan guarantee scheme in conjunction with the Industrial Credit Company (ICC), under which IDA guaranteed the repayment of loans (up to certain limits) provided to high potential start-ups by ICC, for both capital expenditure and working capital.

#### **Direct Government Investment in Infrastructure**

**Advance Factories.** IDA provided ready-to-occupy factory buildings for purchase or rental by both foreign-owned and Irish firms. These were constructed with funds provided by the Exchequer as the private sector was reluctant to take the development risk themselves. This was one of the most important incentives provided by IDA.

#### **Economic Outcome**

The period from 1960 to the late 1970s saw a sustained growth in industrial output and productivity that transformed Ireland from an agricultural to an industrialized nation. The shift in the majority composition of GDP growth and employment from agriculture in 1960 to industry in 2000 was dramatic. The change in the primary destination of Ireland's exports from Britain in 1960 to a combination of the European Union, the United States, and other markets in 2000 was equally impressive.

Some aspects of regional policy were successful in that a number of clusters developed including the establishment of the chemicals/pharmaceuticals industry in the southern region (i.e., Cork), medical devices and healthcare in the western region, and clothing and textiles in the northwestern region. In general, however, the policy of dispersing industries throughout the regions did not result in companies developing deep links with regional communities, as it had no long-term strategic focus other than access to cheap labor.

#### **Successes of Measures Taken**

It is clear that the fiscal and non-fiscal incentives offered by agencies such as IDA contributed in no small way to the attraction of FDI and the development of indigenous firms during this period. They also helped agencies such as IDA to market Ireland against international competition for investment. As IDA had to compete strongly for investment against larger and better-resourced investment promotion agencies in the United Kingdom, Europe, and the Far East, the various investment incentives represented an essential marketing tool.

As to the comparative effectiveness of the various measures adopted, surveys conducted by IDA confirm that the most attractive feature of the Irish incentive regime for foreign-owned firms was the 10 percent rate of tax on manufacturing and internationally traded services activities. This was combined with Ireland's extensive double taxation regime that allowed foreign parent companies to retain the benefit of the 10 percent rate of tax in their home countries. In addition, good tax planning allowed Irish subsidiaries to benefit from the intellectual property embedded in the products that they manufactured which boosted their

sales revenues. The fact that the 10 percent rate of corporation tax was never changed and was guaranteed up to 2010 was also viewed favorably. Tax efficient loans were also attractive to foreign-owned firms, but these and other tax schemes were essentially a supplement to the main incentive of the 10 percent tax rate.

The most attractive non-fiscal incentive was the provision out of Exchequer resources of advance factory buildings at low rentals. Other non-fiscal incentives, such as capital and employment grants, were of particular benefit to indigenous (i.e., low-profit) industry as they provided an immediate cash boost to their operations. However, a series of (unpublished) Equity Capital Surveys undertaken by the Department of Enterprise and Employment in the 1990s put the role of grants in perspective. The surveys showed that grants provided by the development agencies provided less than 15 percent of the funding needs of firms on average. (Of course, grants could account for a much higher percentage in the case of an individual firm.) Other facts that subsequently came to light through research cast doubt on the wisdom of the policy of over-dependence on grants and tax breaks to improve industrial performance.

#### **Failures of Measures Taken**

The policy of relying to a large extent on the provision of fiscal and non-fiscal incentives to firms to drive industrial performance began to be seriously questioned from 1979 to 1986. Despite the provision of large amounts of incentives and grant aid during this period, output growth slowed and manufacturing employment fell, with a loss of almost 20% of jobs in Irish-owned industry. Employment in overseas firms also declined as inward investment fell, and closures increased among older foreign firms in sectors such as textiles and engineering. While productivity growth accelerated in this period, this was due to the shift from traditional industries to modern sectors, such as electronics and pharmaceuticals. The Irish industrial structure took on an increasingly segmented character with a foreign-owned sector dominated by firms in high-tech industries producing predominantly for export existing alongside an indigenous sector mainly made up of firms in traditional industries focused on the home and British markets.

There were three main reasons for the economic downturn that occurred in the mid 1980s. First, notwithstanding the shift to FDI, the legacy of past protectionist policies was an industrial base that was uncompetitive in European and global markets.

Second, the macro-economic climate over much of the period was not conducive to the achievement of sustained growth. Inflation and government debt were at a high level for much of the 1970s and 1980s. Wage and price inflation became locked in a spiral that adversely affected competitiveness and employment. High government borrowing led to an increased tax burden, particularly on labor, which in turn had a negative effect on employment and economic activity. For much of the 1980s in particular, the Irish economy found itself in a vicious circle, escape from which proved very difficult.

Third, Ireland's dependency ratio (i.e., the ratio of the non-working-age population to the working-age population) rose sharply from the 1970s to the mid-1980s because Ireland's "baby boom" lagged that in other industrial economies. As a result, persons of working age made up a significantly smaller proportion of the total population in Ireland than in any other E.U. or OECD member state until relatively recently. This put pressure on Exchequer resources.

The fact that all of this happened in a period when large amounts of incentives were being provided to companies led to a re-examination of the efficiency of the investment incentive system, with surprising results.

#### **Grant Cost Per Job**

The down-turn in the performance of agency-assisted manufacturing and internationally traded services firms in this period occurred despite a very significant amount of grant assistance being provided to those firms. This resulted in an escalating cost per job, which is the amount spent by the enterprise agencies on creating and sustaining one job over a seven-year period. The cost in the period of 1986-1992, when Ireland's economic performance was poor, was €20,743 on average. By contrast, the cost per job in the period 1995-2001, the most recent seven-year period for which complete data is available and a period of strong employment growth, was €13,375 on average, representing a fall of some 35 percent from the previous period.

This evidence demonstrates that greater spending by the enterprise development agencies on grants to industry does not necessarily lead to increased employment. Instead, it suggests that other factors were key to the development of the manufacturing base and that industrial policy must look beyond the mere provision of tax breaks and grants. It should also be noted that the aforementioned cost per job figures do not include tax incentives or some other forms of support, such as E.U. grants to the food industry. If account were taken of these items, the cost per job would be substantially higher than the figures cited.

#### Survival Rates

It might also be expected that firms in receipt of such large amounts of both fiscal and non-fiscal assistance from the enterprise agencies would have a reasonably high survival rate and be better able to withstand an economic downturn. Figures produced by the agencies, however, cast doubt on this. They reveal that the survival rate of firms that started up in the period 1980-1984 and were still operating in 2000 was only 34 percent for foreign-owned firms and 31 percent for Irish-owned firms. This is little better than the survival rate of non-grant aided firms carried out by the Department of Enterprise Trade and Employment in the mid-1990s.

## **Building Scale**

Some 90% of Irish-owned manufacturing and internationally traded services firms employ fewer than 50 people. It was a key policy of the enterprise development agencies to increase the scale of such firms to enable them to better compete on international markets as there is considerable evidence to suggest that output and exports per employee increase in proportion to the size of an enterprise.

This is a critical issue as the small size of the Irish domestic market means that firms must export at a relatively early stage in their development in order to achieve growth. Despite granting large amounts of both fiscal and non-fiscal assistance, however, the record of the development agencies in assisting indigenous manufacturing and internationally traded services firms to increase the scale of their operations was mediocre, as the following facts illustrate.

- Of 2,832 firms that started up between 1980 and 1984, only 17 employed more than 100 people in 2000. Only one employed more than 250.
- Of 3,190 firms that started up between 1985 and 1989, only 23 employed more than 100 people in the year 2000. Only 3 employed more than 250.
- Out of 239 high-potential start-ups that received grant assistance under the IDA's Enterprise Development Program between 1978 and 1992, only 9 percent of them met the requirements for fast-growth firms by 1994. (It is interesting to note, however, that this cohort created over 60 percent of the total employment in the firms surveyed, demonstrating the importance of fast-growth firms.)

#### Conclusion

The Irish economy experienced a transformation from 1960 onwards, aided by the very significant amounts of money spent by the development agencies and the state on grants and tax incentives for manufacturing and internationally traded services activities. Nevertheless, Ireland was in a very difficult position economically by 1986, with an unemployment rate of 16 percent, government debt of more than 100 percent of GDP, high interest rates and inflation, and an Irish GDP per capita that represented only 69 percent the EU-15 average. It is important to note that this was not substantially different from Ireland's position in 1973, when it first entered the European Union and GDP per capita was 59 percent of the E.U. average.

## **Review Group on Industrial Policy**

In 1991, Ireland appointed an expert group under the chairmanship of Mr. Jim Culliton, a well known industrialist, to review industrial policy in Ireland and public policy generally as its affected industrial development and make recommendations. Central to the group's thinking was the view that industrial policy should go beyond a narrow concern with grants, tax incentives, and the role of the industrial development agencies to consider the broad range of factors affecting the environment for enterprise.

## Policy Recommendations

The Culliton Review Group made a number of wide-ranging recommendations designed to strengthen the environment for enterprise, including the following.

- A systematic program should be undertaken to lower the cost and improve the quality of infrastructure and public utilities (i.e., telecommunications, energy, roads, and ports) through additional investment and greater competition.
- There should be a fundamental reform of the tax system, including the "oppressive and unfair" personal income tax system and a reduction in discretionary reliefs and allowances.
- There should be a refocusing of the educational system to give greater priority to the acquisition of usable and marketable skills and to reduce the bias towards the liberal arts and the traditional professions.
- The grant budget for internationally mobile investment should be reduced, even at the cost of losing high cost projects.
- There should be a decisive shift away from grants for indigenous enterprise to the expansion of equity and venture capital.
- In assessing which sectors should be accorded priority in the future, the industrial development agencies should be guided by the desirability of fostering clusters of related industries which could build upon points of national advantage, such as in the food sector which had deep roots in the economy.
- The 10 percent rate of corporation tax had been more valuable to foreign-owned firms than to Irish-owned industry. No indication should be given of its continuance beyond 2010 and the range of activities to which it applied should not be extended.
- The industrial development agencies should be restructured with one body devoted to the attraction of internationally mobile investment and a second charged with the development of indigenous industry.
- The policy of imposing a low rate of tax on manufacturing activities had led, in part, to an over-reliance on production oriented foreign branch plants that were only loosely connected to the Irish economy and were relatively expendable in an economic down-turn. The degree to which a company undertook core business

functions from an Irish base, rather than simply origin of ownership, should in future be the critical distinction for policy purposes.

#### Government Response

Government accepted the vast majority of the recommendations made by the Review Group. Its analysis was a watershed in Irish industrial policy, as it widened the policy debate beyond tax breaks and grants to embrace issues such as the quality of infrastructure, the cost and efficiency of utilities, and the orientation of the educational system. A range of measures have since been implemented to improve the overall business environment in line with the recommendations of the Review Group. These measures form the cornerstone of the current enterprise policy in Ireland, which was described in Section 2.3.

# 3.5 Approach to Sectoral Targeting

As Ireland is a small, newly-industrialized country, its investment promotion strategy focuses on seeking a flexible and pragmatic fit between the capabilities that exist or can realistically be developed in the economy and the types of activity and enterprise to which they are best suited. It is based also on a recognition that the concentration of companies in particular sectors or niches within a given geographical area can improve the efficiency and sophistication of existing businesses and stimulate the growth of new enterprises.

From the 1970s onwards, a strategic decision was taken to place particular emphasis on attracting inward investment in high-growth, niche sectors such as computers, electronics, chemicals, pharmaceuticals, healthcare, and financial and international services. This was because these sectors were evaluated and found to have above-average growth potential internationally and to be a good fit with the skills base of the Irish workforce. Specific firms in these sectors that were considered to be industry leaders or key influencers were targeted and actively pursued. Without question, this strategy has paid dividends.

This strategy has been progressively refined over time to take account of developments such as emergence of eBusiness and the increased importance of biotechnology. Ireland has become a significant global force in a number of niches within the sectors targeted by enterprise policy. Despite the ongoing difficulties in the global information technology industry, the strategic focus on ICT, pharmaceuticals and healthcare, and international and financial services remains the correct policy for Ireland and will be maintained. ICT will remain pivotal to enterprise development and economic growth in the decades ahead. In the view of informed commentators, biotechnology is set to be a key science and technology in the early decades of the twenty-first century. This strategic focus on ICT, biotechnology, and international services will not preclude Ireland from competing strongly for quality investment projects in other sectors. The only types of project that will not be pursued as a point of policy are those in sectors or activities that do not have a longer-term competitive future in Ireland.

IDA Ireland is committed to attracting higher value added activities to Ireland and also places considerable emphasis on the addition of strategic business functions to the Irish operations of foreign-owned companies such as R&D, logistics and supply chain management, materials sourcing, marketing and customer service, IT, and treasury management. IDA Ireland uses a methodology to guide this process which ranks the subsidiaries of multi-national companies along eight stages of strategic development, ranging from undertaking a basic mandate with little or no autonomy to being the strategic apex or main corporate center for the entire multinational enterprise. IDA's objective is to advance as many companies as far up this developmental scale as possible.

The pace of technological and market change in advanced economies is such that opportunities in newly-emerging fields and niches have to be kept under continual scrutiny. IDA Ireland has set up a new division to identify and develop new potential growth areas for inward investment at the higher value end of the enterprise spectrum. One of the agency's key long-term objectives is to help create a number of niches in which Ireland will have a world-ranking position. The aim is that, in these niches, major global companies would see Ireland as an essential place in which to have strategic operations. These Irish operations, moreover, would be the first link in the creation of new value chains within the company rather than, as is largely the case at present, being a subsidiary part of a broader corporate value chain. As a first step towards this goal, IDA Ireland has formulated proposals for the development of Strategic Business Areas. These comprise innovation-based niches or clusters in which this country has already developed strengths and whose further development requires the involvement of foreign and indigenous companies, universities and other thirdlevel institutions, research bodies, venture capital funds, regional bodies, local authorities, and others. Initial targets for the development of Strategic Business Areas are selected areas of software, biotechnology, and digital media.

# 3.6 Tools Used by Policymakers for Sectoral Targeting

#### **Selective Application**

The tools that Ireland uses to promote the development of enterprise in targeted sectors are largely the same as those that they use to promote the development of enterprise nationally. (See Section 3.3 for further information.) The key difference lies in the question of *selective application*. Ireland offers its facilities to projects in all manufacturing and internationally traded services sectors in theory. In practice, however, it offers them only to projects in those sectors that it actively targeting.

#### **Promotion**

More important than the selective application of facilities, the most effective tool that Ireland uses to attract investment in targeted sectors is robust, highly-focused investment promotion. IDA Ireland is arguably the most successful investment promotion agency in the world. With a €35 million annual promotional budget (2003), 295 employees, and 15 offices located strategically around the world, it has the both the financial and human resources to compete effectively for FDI.

IDA Ireland aggressively pursues projects through direct marketing. Despite its substantial resources, however, it only does so in the following strategic areas.

- Information and communications technology
- Biotechnology
- Chemicals
- Pharmaceuticals
- Healthcare
- Internationally traded services (i.e., software, international financial services, shared services, customer support).

This tightly focused promotional approach greatly enhances Ireland's ability to target investment in sectors that are strategic for its economy. The strategy has proven effective, as IDA Ireland secured 64 inward investment projects in targeted sectors in 2003.

## 3.7 Approach to Regional Development

## **Background**

Ireland has historically suffered from pronounced economic disparities, most strikingly between the relatively developed and prosperous region of Dublin (the capital city) and its surrounding east coast on the one hand and the relatively undeveloped and poor BMW region on the other. These disparities persist today. Although all parts of the country benefited from strong economic growth in the 1990s, growth was strongest in high population centers such as Dublin which attracted most of the knowledge-based and high-tech activities where Ireland increasingly competes. Spatial differences in the nature and pace of development in recent years have also exacerbated existing disparities in population, income and the enterprise base. For example, the rapid development of the Dublin area has led to economic centralization, congestion, and urban sprawl, as well as undesirable activities such as the growth of long-range commuting.

While the numbers at work rose nationally by 50% between 1993 and 2002, growth was as low as 16% in the Midlands and 37% in the Border region. Disposable income per capita was 117% of the national average in Dublin in 2002, but only 86% in the Midlands. The share of high-tech manufacturing and internationally traded services employment in the Dublin region was 59% in 1999, compared with only 42% in 1995. In the Midlands, however, the percentage actually fell from 29% in 1995 to 25% in 1999, emphasizing the scale of disparity in the regional distribution of high-tech employment.

## **Policy**

Irish enterprise policy has always focused on addressing these disparities and achieving balanced spatial development. The most recent example of this regional focus is the National Spatial Strategy, which was launched in 2002 with the core objectives of promoting more balanced regional development and reducing of regional disparities in output and income. The main pillars of that strategy are as follows.

- Strong urban structures are an essential element of successful regions.
- Linkages between those urban centers and the surrounding hinterland represent the most effective way of spreading benefits to the wider regions.
- The regions need to build on established strengths as far as possible and to manage and develop these so as to ensure that they complement each other.

The clear focus of the National Spatial Strategy is on the potential of different areas to create and sustain economic strength through developing critical mass in population, infrastructure, education and skills, and enterprise. Correspondingly, the enterprise development agencies now give a high priority to the promotion of greater regional balance in enterprise development. Figures produced by Forfás show that this policy is beginning to show results. The share of new jobs created in the Border, Midlands, West regions by agency-assisted firms has been steadily increasing, rising from 18 percent of the total in 1999 to 26 percent in 2003, which is in line with the regions share of population and labor force.

Past experience suggests, however, that this regional balance will not be achieved on a sustained basis unless enterprises are rooted in real regional capabilities and strengths. In the 1960s and 1970s, there was a significant regional dispersal of industrial enterprise and employment as new foreign-owned enterprises were set up throughout the country, sometimes in relatively isolated rural areas. Between 1961 and 1981, for example, Dublin's share of industrial employment declined from 46.5 percent of the national total to 33.1 percent. In many cases, however, the enterprises established in rural areas were heavily

dependent on low labor costs and were not rooted in any more lasting sources of comparative advantage. While they gave a boost to their local economies during their time there, this did not offer a viable basis for long-term development.

# 3.8 Tools Used by Policymakers for Regional Development

#### **More Intense Application of National Tools**

The tools that Ireland uses to promote the development of enterprise in underdeveloped regions are largely the same as those that they use to promote the development of enterprise nationally. The key difference lies in the question of *intensity*. This is to say, the same activities that are undertaken or facilities that are extended to firms in Dublin are done with greater intensity or to a greater degree in the regions. The degree of the intensity depends on the development of the region, with the least developed regions receiving the greatest support.

For example, at Tables 3.3-3.5 illustrate, virtually all of Enterprise Ireland's support programs are biased towards providing greater facilities to firms in undeveloped regions.

Table 3.3: Regional Intensities for Existing Company Expansion Support

			Maximum Grant Level (%)			
Region	R&D Non-Repayable Incentive (€)	Training Non-Repayable Incentive (€)	Large Firms	SMEs		
Dublin/Mid-East	390,000	75,000	25	35		
South East/South	425,000	100,000	25	35		
Border, Midlands, West	450,000	125,000	35	45		

Table 3.4: Regional Intensities for SME Competitiveness Fund Support

Region	Minimum Eligible Expenditure (€)	Maximum Grant (€) and Aid Rate (%)
Dublin/Mid West	100,000	150,000 or 25% of eligible expenditure,
		whichever is the lesser
Border, Midlands, West	50,000	225,000 or 45% of eligible expenditure,
		whichever is the lesser
Other Regions	70,000	175,000 or 30% of eligible expenditure,
Ü		whichever is the lesser

Table 3.5: Regional Intensities for Research, Technology, and Innovation Grants Scheme

			Maximum Grant Level (%)			
Region	Maximum Funding Incentive (€)	Maximum Grant Amount (€)	Large Firms	SMEs		
Dublin & Mid-East	650,000	390,000	25%	35%		
Border, Midlands, West	650,000	450,000	35%	45%		
Other Regions	650,000	425,000	25%	35%		

This is practice is shared by the European Union, which allows its member countries to provide higher levels of grant aid to firms in underdeveloped locations, as illustrated by Table 3.6.

Table 3.6: Maximum Regional Aid Intensities for Investment Projects (%)

	2000	2001	2002	2003-06	Additions
Border, Midlands, West	40	40	40	40	Plus 15% for SMEs
Southeast, Midwest, & Southwest	37	31	26	20	Plus 10% for SMEs
Mideast	35	29	23	18	Plus 10% for SMEs
Dublin	17.5	17.5	17.5	17.5	Plus 10% for SMEs

Note: Maximum regional aid intensities refer to the percentage of eligible costs that can be aided by grants.

Source: Government of Ireland, Department of Enterprise Trade and Employment, Review of Industrial Policy and Performance 2003.

Thus, for example, a project establishing in the rural areas of the Border, Midlands, and West region of Ireland can receive grant aid amounting to 40 percent of the eligible costs of the project, whereas the same aid would be capped at only 17.5 percent of eligible project costs in the Dublin area.

#### **Specialized Initiatives**

In addition to implementing national practices with greater intensity in regional areas, the development agencies also develop initiatives to address issues of regional development especially. For example, in response to the clear need for greater regional balance in enterprise development, IDA Ireland drew up enterprise development plans for the different regions of the country. These started from an analysis of factors such as the presence of higher education institutions, the level and adequacy of infrastructural provision, the skills base, and the composition and competitiveness of the existing enterprise base. The development plans then sought to identify the sectors that best matched the capabilities of different regions, the towns on which future enterprise development should be centered, and the infrastructural and other constraints on development that needed to be addressed. IDA Ireland is committed to the development of strong magnets of attraction in key centers in all regions of the country and has developed a number of Regional Flagship Business and Technology Parks to international standards in key gateway and hub locations. The agency has also decentralized a range of its business functions and staff to regional locations.

Similarly, Enterprise Ireland is actively engaged in an enabling role at regional level with local authorities, higher educational bodies, and others aimed at strengthening the regional environment for enterprise. This involves fostering stronger links between new and established industry in the regions and the universities and institutes of technology, adopting a pro-active approach to infrastructural development particularly in the area of telecommunications, and sourcing incubator space for new technology start-ups.

Enterprise Ireland has also launched an initiative called Webworks aimed at stimulating startups in the regions in strategic sectors such as software and bioinformatics, as well as encouraging the formation of locally-rooted clusters in these fields. Webworks is comprised of high-quality, regionally-based office facilities for technology-based companies located close to third-level institutions with access to broadband Internet. Each Webworks will have appropriate management and support structures, as well as flexible leasing arrangements for 20-30 large units and 10-15 smaller units.

In line with its commitment to regional development, Enterprise Ireland set the following specific targets for the regions in its 2001-2004 business plan.

- Establishment of 50 new, high-potential start-up companies outside Dublin
- Expansion of 30 Dublin-based companies into the regions
- Assisting 150 companies from outside Dublin to become first-time exporters
- Making 360 major investment commitments outside Dublin

 Committing 30 percent of Enterprise Ireland's financial support to projects in the BMW region, which accounts for 20 percent of the total output of Enterprise Ireland's clients

# **Specialized Institutions**

In the early 1990s, Ireland established new institutions to promote entrepreneurship and support micro-enterprise in all sectors of the economy and in both regional and rural areas. These institutions are comprised of the following.

- 35 City and County Enterprise Boards to provide grants, equity, and management support to micro-enterprises nationwide
- 34 Area Partnerships to provide similar support to disadvantaged groups in both urban and rural areas
- 30 Leader Groups to stimulate innovative measures in rural areas

# 3.9 Approach to Regional Volatility

#### **Background**

Ireland achieved independence from Britain in 1922 following a bloody rebellion in 1916 and a subsequent war of independence. At independence, Ireland was partitioned with 26 counties belonging to the Republic of Ireland and 6 counties in Northern Ireland remaining under British control. This remains the case today. Since 1922, there has been civil unrest and political violence of varying degrees of intensity in Northern Ireland, most notably since the start of the armed struggle by the Provisional IRA in 1969. There is now a political agreement between the British and Irish governments regarding the devolution of power to the political parties in Northern Ireland and many cross-border institutions have been established.

# **Consequences for Enterprise Development**

The violence in Northern Ireland was not been a destabilizing factor in the Republic of Ireland for such reasons as the following.

- The campaign of violence, with some limited exceptions, was confined to Northern Ireland
- Neither the Provisional IRA, nor the Protestant paramilitaries attempted to disrupt business or social relationships between North and South. The campaign of the former was aimed at ending British rule in Northern Ireland, that of the latter at defending British rule. In fact, the political party associated with the IRA has always seen itself as part of the Republic of Ireland and has won seats in the Irish Parliament, as well as on many local councils.
- Many U.S. investors in the Republic of Ireland are of Irish descent and understand the nature of the conflict in Northern Ireland

For such reasons, regional volatility did not disrupt the development of enterprise in the Republic of Ireland to a significant degree. The Republic of Ireland did not find it necessary to offer special incentives to investors, in order to compensate for the perceived risk of doing business there.

It is interesting to note, however, that Northern Ireland – where the conflict was taking place – did find it necessary to offer special incentives to investors, in order to win projects. According to one study, grants were required to offset the country's locational disadvantages by about half of the firms that located there, while the other half would have located there with or without grant support. (Sheehan, 1993)

#### 3.10 Conclusion

Reflecting on Ireland's economic development, a number of conclusions can be drawn.

Investing in improving the business environment, including social and economic infrastructure, coupled with favorable external factors, was key to Ireland's rapid growth in the 1990s. If the business environment is adverse, providing support to firms in the form of grants and tax breaks will not work.

Interventions which benefit all sectors, such as upgrading infrastructure, developing human capital, and improving the overall business environment tend to be most effective. The main fiscal measure which Ireland now employs (i.e., 12.5 percent rate of taxation on profits from all trading activity) is also universal in nature. Non-fiscal measures such as grants apply to all sectors of manufacturing industry in theory, although in practice they are focused on specific sectors of activity considered to have competitive advantage, such as electronics, chemicals, pharmaceuticals, medical devices, biotechnology, software, and financial services.

Ireland has developed as a dual economy, and fiscal and non-fiscal mechanisms have been tailored to meet the different needs of foreign and Irish-owned industry. In terms of attracting foreign-owned firms, the most effective fiscal support has been a low, flat rate of corporate income tax that is guaranteed for a long period of time. Although non-fiscal supports, such as capital and employment grants are less important, they are still used as a marketing tool by IDA to compete for investment. After 2006, however, it is likely that IDA will be unable to provide grants to firms under E.U. rules, unless they are located in poorer regions. So, it is likely that grant support will be phased out.

In terms of supporting indigenous industry development, experience has shown that the most effective mechanisms are repayable supports for building firm capability and competitiveness, increasing linkages and networks between business and research institutions, providing loans and venture capital to SMEs, enhancing the skills base, and encouraging R&D. Overall, it has been found that grants tend to encourage a hand-out mentality among indigenous firms. The best policy is to introduce small firms to market mechanisms in a structured way.

Finally, it is important to note that the above conclusions have been reached after 50 years of industrial development experience in Ireland. For most of this period, grants and tax breaks were used to attract firms to invest in Ireland. It is also important to note that over this period Ireland has developed a substantial industrial base composed of most of the world's leading multinational corporations in key, high-growth sectors. Grants and tax breaks obviously played a role in attracting them, and their importance differed from firm to firm. Factors other than grants and tax breaks also played a key role in attracting many of the large multinational corporations to Ireland. For example, the supply of electronics graduates and technicians was a significant factor in Intel's decision to establish and expand in Ireland. An adequate supply of science graduates was a key consideration for the Wyeth biotech project. Access to a skilled, educated, adaptable, and flexible workforce is also cited by major IT corporations such as Apple Computers, Oracle Corporation, and AOL as key reasons for their decision to locate and expand in Ireland. On the other hand, the 12.5% corporate tax rate and the availability of capital and other grants were cited by Takeda Chemical Industries (i.e., the fifteenth largest pharmaceuticals company in the world) as the main reason for its decision to locate in Ireland.

Although Jordan need not to repeat the perceived mistakes made by Ireland in attracting investment (e.g., being too grant focused, not paying enough attention to the overall business

environment), it must also judge what will work best at its current stage of development. It is hoped that the Irish story will offer some guidance in this regard.

#### CHAPTER 4: RELEVANT JORDANIAN EXPERIENCE

#### 4.1 Introduction

This chapter has been prepared to explore Jordan's attempts at regional development and sectoral targeting of investment through non-fiscal measures, such as infrastructure and skills development, rather than fiscal investment incentives in the form of tax exemptions and other tax benefits.

This chapter is organized in four main sections. Following this introduction, Section 4.2 presents case studies of Jordan's recent regional development initiatives. Specifically, it sheds light on the experience of JIEC Al Hussein Industrial Estate in Karak and the Land Rover plant in Ma'an. It investigates the country's attempts to emphasize skills development through regional universities and vocational training centers distributed throughout the Kingdom. And, it examines the cutting-edge, integrated approach to regional development currently being undertaken by the Enhanced Productivity Program.

Section 4.3 discusses sector and industry-specific targeting initiatives. In particular, it examines briefly the experience of the JIEC in targeting the manufacturing sector through infrastructure development and skills development services (via collaboration agreements and initiatives between universities and JIEC). It also reviews the variety of indirect government funding mechanisms available for projects in targeted sectors.

Section 4.4 provides concluding remarks about the experience of Jordan in targeting certain regions and sectors based on the previous observations, as well as the feedback of investors interviewed for this study.

# 4.2 Regional Development Initiatives

Regional development in this context is defined as the enhancement of the business environment and industrial investment climate needed to make long-term improvements in living conditions and provide jobs and income opportunities to the less-developed areas of the country by attracting investments and creating business activity. Regional development is thus accomplished through the coordinated effort of private businesses in partnership with national and local entities in promoting initiatives to improve the conditions for citizens of the less-developed areas.

Jordan has made few attempts to attract investments into the less developed regions of the country, and those that have been made were mainly fiscal in nature, although some selected areas focused on infrastructure or skills development. Al Hussein Industrial Estate in Karak, while it mixes fiscal with non-fiscal incentives, is primarily an exercise in infrastructure development in a less-developed area. The various universities and vocational training centers scattered around the country's remote areas are examples of skills development in regional areas. The Land Rover factory in Ma'an is an example of selective, non-fiscal, politically-driven investment. Finally, the Enhanced Productivity Program is an attempt at regional development that combines a variety of non-fiscal incentives, infrastructure, and skills development, with international best-practice approaches. The following sub-sections of this part of the report will discuss these examples in greater detail.

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<sup>&</sup>lt;sup>6</sup> Roughly speaking, this broad definition covers most of the country's areas which are far from the population and economic activity centers of Amman and Zarqa, which together account for more than two-thirds of the country's population and approximately 80 percent of its gross domestic product.

# **Direct Government Investment in Infrastructure: Physical**

Case Study: Al Hussein Industrial Estate

Al Hussein is the third industrial estate to be established and managed by JIEC and Jordan's second industrial estate to be designated as a Qualifying Industrial Zone (QIZ) after Al Hassan Industrial Estate in 1999. Al Hussein industrial estate is situated in 118 kilometers south of the capital city Amman, 18 kilometers from Al Karak city, the center of Al Karak governorate (home to approximately 220,000 inhabitants), 80 kilometers from Queen Alia International Airport, and 11 kilometers from Mu'ta University. Al Hussein Industrial Estate is positioned in Zone C according to the Investment Promotion Law.<sup>7</sup>

Al Hussein Industrial Estate Infrastructure. A total area of 1,856 dunums was developed with industrial infrastructure to facilitate investments at Al Hussein Industrial Estate, including a reliable power network, telecommunications network, water supply network, and a wastewater treatment plant. In addition, investments at Al Hussein enjoy the extra services of a civil defense center, police station, commercial banks, branches for insurance, transport, shipment and clearance companies, and a customs center.

Investors within the public industrial estates deal only with JIEC for all procedural and administrative issues. All necessary permits and licenses (e.g., land use, construction license and professional licenses, building occupancy permit) are issued by JIEC. Furthermore, four types of standard factory buildings (SFBs) with different areas are available to suit the investors' needs as follows.

- Type A: 100 square meters
- Type B: 328 square meters
- Type C: 813 square meters
- Type D: 1,300 square meters

Al Hussein Industrial Estate in Numbers. Al Hussein Industrial Estate hosts six factories in an area that is already developed, of which four are currently operational with a total investment value of JD 41.5 million and employing over 5,200 workers. It is located in Zone C, thereby qualifying for the maximum allowable tax reduction over the greatest length of time, receives extra JIEC incentives, has a developed infrastructure, and is the only industrial estate in southern Jordan to be located near a university. Despite these impressive statistics and characteristics, it has strikingly underperformed in terms of attracting investments compared to other public and private industrial estates. Following three investments (all garment factories) in 1999 and 2000, investment activity in the estate stagnated until 2004, at which time a new factory was set up and operations started. Two more investments were recently approved and are currently under construction.

A JIEC officer reported that the suboptimal performance of the Al Hussein Industrial Estate is due to insufficient marketing efforts to promote Al Karak as an industrial investment destination. Moreover, some officials reported that Al Karak, which is located in the south in a deserted and rural area, seems less attractive when compared to the strategic locations of other industrial estates near Amman, such as Abdullah II and Al Tajamouat, and even the Al Hassan Industrial Estate in Irbid and Al Dulayl Industrial Estate in Zarqa.

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<sup>&</sup>lt;sup>7</sup> According the Investment Promotion Law 16 of 1995, investments made in Zone C benefit from 75 percent exemption for ten years on income and social tax, in addition to the 100 percent exemption on taxes and fees of fixed assets (including those needed for expansion), and spare parts that is applicable to all zones (A, B, and C).

#### Direct Government Investment in Infrastructure: Education and Skills

Another common non-fiscal measure used to regenerate regional areas across the Kingdom has been the establishment of various learning institutions in those areas. Such institutions do not only provide residents with various skills and higher learning opportunities that in turn equip them for professional and vocational employment, but they also trigger the establishment of ancillary businesses and services to cater to the needs of the institutions, students, and employees. They also allow investors in rural and less developed areas to access a pool of skilled laborers and professionals, which is of paramount importance for any investor. Of these institutions, the most noteworthy are Jordan University of Science and Technology (JUST), in the north of the country near Irbid, and Mutah University, in the south near Karak, and the various vocational training centers scattered around the country.

#### Universities

**Jordan University of Science & Technology.** Located in Irbid, JUST is the largest city in northern Jordan. Its governorate has a population of 950,695, of which approximately one-quarter live in rural areas. As a commercial, industrial, and manufacturing city, Irbid has two famous universities: Yarmouk University and JUST. There are many community colleges as well located in this area.

JUST has its roots at Yarmouk University and was established in September 1986 as an autonomous national institute of higher learning. Five faculties were subsequently detached from Yarmouk University to form an integral part of JUST and instruction began in September 1986. JUST hosts on its premises the Cyber City QIZ. Additionally, JUST is very close in proximity to the Al Hassan Industrial Estate, which is located 80 kilometers north of Amman. A cooperation agreement between JUST and JIEC was signed a few years ago. (See section 4.3 for further information.)

**Mu'tah University.** Mu'tah University was established in 1981 as a military institution of higher education. Later, in 1986, a civilian wing was added. The town of Mu'tah is part of Al Karak Governorate, and the university is close to the city of Al Karak. The university prospectus attests to the fact that the university's location in the south of Jordan – admittedly less developed than most parts of the Kingdom – is meant to serve as a source of "enlightenment, modernization, and development of this region." Many Jordanian economic and social development plans have designated this region a target for significant investment projects, including phosphate, potash, cement, fertilizers, electricity generation, and tourism. The implementation and management of these industries and projects need highly trained human resources, as well as new technologies and skills that will hopefully be provided by Mu'tah University.

The Faculty of Engineering, as one example of 11 faculties (including physical education, agriculture, nursing, medical sciences, economics, and administrative science), was established in 1984 with four faculty members. Nowadays, a total of 69 faculty members with a wide spectrum of research and industrial experience are currently employed at the university. Enrollment has increased sharply in recent years, reaching 1,200 students distributed in five different divisions by 2000. The faculty offers specializations in electrical, mechanical, civil, chemical, and computer engineering. In addition, it provides short courses, workshops, and consulting services in different fields of engineering through the Southern Center for Studies and Continuing Education (SCSCE). A cooperation agreement between Mutah University and JIEC was signed a few years ago. (See section 4.3 for further information.)

#### **Vocational Training Corporation**

The Vocation Training Corporation (VTC) and its affiliated centers make up another set of learning institutions that was established to assist in skill development and employment generation across the Kingdom, especially targeting less-developed areas. (See Table 4.1 for the distribution of VTC centers throughout Jordan.) VTC was established in 1976 under the supervision of a Board of Directors chaired by the Minister of Labor. In addition to adhering to a strategy that ensures the availability of accurate information of the labor market and closely monitoring its needs to meet the training needs of all populated areas, VTC has a mandate of fulfilling the following roles.

- Provide vocational training programs for technical workforce preparation
  - Semi-skilled (e.g., data entry, bakery assistance)
  - Skilled (e.g., hairdressing, general mechanic)
  - Craftsman (e.g., typing clerk, office machine maintenance)
  - Applied secondary education
  - Safety supervisors
- Upgrade the workforce in different programs and vocational training levels (i.e., nonacademic)
  - Technical upgrading
  - Instructor training
  - Supervisor training
  - Occupational safety and health training

Location Number Amman-Marka

Table 4.1: VTC Centers by Location and Number

7 trimari Marka	,
Sahab Industrial Estate	3
Karak	3
Irbid	3
Tafeileh	2
Aqaba	2
Hashimiah	2
Amman-Third Circle	1
Quesmeh	1
Ain-Elbasha	1
Middle Ghor-Fannush	1
Madaba	1
Abu-Nusair	1
Ma'an	1
Yajooz	1
Zarka	1
Ghor Safi	1
Dulayl Industrial Estate	1
Ramtha Industrial Estate	1
Salt	1
Mashara	1
Hakama	1

#### **Direct Government Funding**

Case Study: Land Rover in Ma'an

Elsewhere, and aside from the various free zones or industrial estate-type projects that enjoy the benefits of The Investment Law, government reserves the right to grant certain exemptions to major international companies to attract them to establish operations in Jordan. The incentives offered under such cases are generally non-fiscal in nature, such as the case of

Land Rover automobile operation in Ma'an (located in southern Jordan), which received a three-year guarantee that the Jordanian Armed Forces will purchase its products.

Land Rover signed a \$100 million investment agreement with the local Al Shaheen Investment Group to form Olé Jordan Company and establish a factory in Ma'an to assemble Land Rover vehicles from parts imported from the United Kingdom. The assembly plant was slated to begin operation in mid-2003. Projections indicated that the plant's annual production at the start of its operations would reach over 5,000 units of the four-wheel drive Land Rover Defender 110 model, all of which will be sold initially to the Jordanian military. Land Rover's regional director for the Middle East and Africa stated the plant's goal is to position Jordan as a strategic regional supply center for other parts in the Middle East.

The project is located at lot (27), basin (19) of sateh Ma'an, five kilometers from the city center towards the town of Al Mudawara. The 700 dunum (i.e., 70 hectares) site includes a 20 dunum assembly plant and workers' village, including residential and recreational facilities for the employees. The site was completed in approximately October 2002.

There are a number of reasons why the city of Ma'an was selected to host this initiative including the availability of land, the proximity to major highways, and the economic impact of attracting additional industrial capacity to the Ma'an area. The Governorate of Ma'an, whose total population is 107,115, suffers from an unemployment rate that unofficially rises to 25 percent.

Land Rover is expected to employ 300 to 400 workers in its Jordanian factory, who will be supervised by about seven management staff from Land Rover headquarters. Al Shaheen Investments expects that the majority of labor will be sourced from the local Ma'an and Aqaba areas, and will require just a five to ten percent foreign workforce (primarily from Egypt). The venture will also fund a technical college that will train students in manufacturing processes and provide accreditation to between 25 and 30 people per year. This type of capacity building and income generation benefits is considered highly useful to the sustainability of the project.

Land Rover Ma'an will initially assemble completely knocked-down kits imported from the United Kingdom. Al Shaheen Investments feels there is a high potential to eventually source some components from the local market, especially upholstery, fan belts, rubber products, packaging materials, and some electrical parts. Companies from Italy, Turkey, and East Asia have also approached Al Shaheen about supplying the factory with components.

# Integrated Approach: Enhanced Productivity Program<sup>8</sup>

#### Overview

The Enhanced Productivity Program (EPP) is a government-funded development project for Jordan. It is based on the premise that the government has a role to play in facilitating the ability of all Jordanians to improve their lives. To that end the EPP creates opportunities for rural communities to be a part of income-producing and self-sustaining industries. In addition, and unlike previous government initiatives, the EPP focuses on an integrated approach to rule development where one EPP project leads directly to and support the other EPP project. The end result will be individual and communities generating income and employment in their towns and villages, with the government playing the role of the enabler and supporter.

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<sup>&</sup>lt;sup>8</sup> The material in this section is taken largely from Enhanced Productivity Program promotional literature (http://www.epp.gov.jo/about.shtm).

EPP's integrated approach is worth noting. More so than previous government efforts in this area, EPP combines a variety of the policy instruments available for regional development, including direct government investment in physical infrastructure through the Community Infrastructure Program, government investment in human capital through the training scheme, institutional support through the Enhanced Productivity Centers and the Rural Community Cluster Development Program village and cluster committees, indirect funding through the Enhanced Productivity Centers, and direct government funding through its grants scheme. Each of these elements is briefly described below.

Furthermore, it is interesting to note the many ways in which EPP conforms with the current best practices for regional development described in Chapters 2 and 3. For example, EPP focuses on the business environment, in the form of infrastructure, training, institutional support, and finance. It strives to develop communities through competitive, market-based activities. It endeavors to create economic and social "clusters," another term for the "agglomeration" economies referred to in Chapter 2.

The decision to launch EPP developed from consultations between the public, private, and non-governmental sectors and the consensus that was reached on national socio-economic priorities during the Second (Dead Sea) National Economic Forum in March 2001. EPP was created by Cabinet decree on 3 January 2002, adopting a comprehensive developmental approach to improve the standard of living for all Jordanians, especially rural and disadvantaged individuals, by creating and increasing access to opportunities for productivity gains in each of the governorates. EPP forms a crucial part of government's overall response to the challenges of standard of living and regional development.

# Objectives

EPP builds productivity and rural development by promoting enterprise, community and infrastructure development. Key objectives are articulated for the program, which include the following.

- Alleviate poverty and unemployment
- Enhance the economic development of rural and poor areas throughout the Kingdom
- Improve the quality of life and standards of living for all citizens
- Produce immediate and visible improvement in the living conditions and productivity of all Jordanians, especially the poor

EPP is a Jordanian-owned rural economic development strategy working to achieve the following.

- Offer an integrated, regional approach to economic and social development
- Enhance geographic distribution of development programs
- Respond rapidly to the pressing economic and community development priorities of governorates
- Promise immediate and visible results in improving the economic and social well being of rural and poor persons
- Support adaptable and responsive small finance services in the governorates
- Improve community infrastructure in support of enterprise development in each of the governorates
- Engage the private and non-governmental sector in the delivery of job creation and training programs
- Encourage private sector investment in employment training and infrastructure projects

## **EPP Components**

The philosophy that drives the various program components of EPP is the belief that individuals and communities will improve their productivity if provided with the enabling tools to do so. In this sense, the role of government is, as articulated by His Majesty King Abdullah II, to support "people in their effort to enhance their productivity."

EPP has five interrelated components all of which are intended to increase the productivity of individuals and their communities and promote rural development.

- Rural Community Cluster Development Program
- Enhanced Productivity Centers Program
- Community Infrastructure Program
- Training
- Small Grants

As EPP represents an integrated development approach, there are strong linkages between each of the five main program components.

Visit http://www.epp.gov.jo/about.shtm for more information about EPP.

Overview: Community Infrastructure Program

The objective of the Community Infrastructure Program (CIP) is to enhance productivity and rural development through infrastructure projects that support enterprise development in tourism, agribusiness, municipal, and governorates development.

CIP focuses on the following areas.

- Enhancing individual, community, and regional productivity through infrastructure development
- Developing infrastructure in support of individual, village, and regional enterprise development and income generating projects
- Encouraging large-scale infrastructure projects in tourism and agriculture
- Tackling the most pressing infrastructure development priorities of the municipalities and governorates
- Supporting infrastructure development for village clusters
- Creating an environment in the governorates that is favourable to private sector investment
- Creating employment opportunities

Visit http://www.epp.gov.jo/cip.shtm for more information about CIP.

Overview: Rural Community Cluster Development Program

The Rural Community Cluster Development Program (RCCDP) is a JD6 million integrated rural development program. RCCDP is implemented by three consortiums (grantees) of international organizations, with reputable experience in the clusters program, teaming up with local partnering non-governmental organizations. Each of the grantees was granted an amount of JD2 million to implement a number of projects in selected clusters.

The objective of RCCDP is to contribute to a sustainable rural economy that will strengthen the social and economic fabric of the rural communities in Jordan and ultimately play a prominent role in overall Jordanian social and economic development as part of EPP.

The program creates a partnership with communities of not less than sixteen rural clusters in Jordan to accomplish the following five goals.

- Revitalize essential small infrastructure, such as water and sewage systems
- Create income-generating opportunities, in particular agriculture-based activities

- Improve health, education and quality of life through community assistance
- Address critical environmental problems through such interventions as reforestation, sanitary drainage, or landfills
- Promote civic participation

The thread that links activities in these areas is the mobilization of the energy and talents of local people. RCCDP is doing this through the formation of village and cluster committees to prioritize, plan, and carry out projects to achieve the goals listed above. The committees consist of local leaders and representatives from different local organizations and entities. The committees are inclusive and democratically run, with maximum feasible involvement of women in all aspects of the program. In many cases, the committees have the advantage of collaboration with similar committees or other organizations that have participated in cluster work in the region.

Participation is the essence of the program. Capacity building and community empowerment are the overall aim of the program.

Visit http://www.epp.gov.jo/rccdp.shtm for more information about RCCDP.

Overview: Enhanced Productivity Centers Program

The objective of the Enhanced Productivity Centers Program or IRADA is to enhance individual productivity through sustainable enterprise development and income generating activities and thereby improve living standards, promote job creation, and stimulate economic growth at the regional level.

In a fast growing economy and a competitive market, accompanied by high unemployment and poverty rates, it has become more difficult for small businesses to survive and prosper without the support of a national policy and the professional guidance of a specialized entity that undertakes to assist those businesses through the early stages of entrepreneurship, and advise business owners on how, when and where to get started.

Through a total of 22 centers distributed across the Kingdom, the program provides consultative and administrative assistance to citizens wishing to establish new income generating projects or develop their existing businesses. The centers avail the visitor a chance to receive all the needed information, guidance, and technical services pertaining to the establishment and/or development of a business, as well as the necessary advice on loan sourcing channels that are suitable for the client's business and financial situation.

By expanding its services across the Kingdom's urban and rural areas alike, the program aims to serve the local communities by empowering individuals to integrate in the economic process and assume a more active and constructive role in the development of their societies. The centers are open to all individuals who demonstrate a strong will and commitment to take the initiative to increase their income, improve their living conditions and create work opportunities for themselves and possibly for others in their societies.

IRADA has been successful. Since its inception, the number of established projects has reached around 860, creating around 2,700 employment opportunities. On average, the size of investment of each established project is approximately JD18,000 (\$25,200).

Visit http://www.epp.gov.jo/epc.shtm for more information about IRADA.

# 4.3 Sectoral Targeting Initiatives

Jordan has embarked on a few initiatives to target investments in specific sectors or industries. The tourism and ICT sectors have received special attention and at many times acquired certain favorable treatment that involved both fiscal and non-fiscal incentives.

However, the most pertinent example of sectoral and industrial investment targeting that took place in Jordan is likely considered the fiscal and non-fiscal incentives provided to the manufacturing sector.

The following section describes how this sector received special infrastructure development incentives through the various industrial estates, of which the JIEC is discussed in detail. It also explains the skills-related incentives that the manufacturing sector receives through collaboration agreements signed between JIEC and various universities.

#### Direct Government Investment in Infrastructure: Physical, Education and Skills

Case Study: Jordan Industrial Estates Corporation9

## Background

JIEC was legally established in 1985 as a semi-governmental corporation and with participation of both the public and private sectors. As an independent corporation with its own financial and administrative system, JIEC promotes and encourages the establishment of industrial projects throughout its industrial estates. It was Jordan's first corporation to witness two of its industrial estates become QIZs and is the largest corporation in the business of developing industrial estates in terms of capital, investment volume, number of projects, and workers.

JIEC currently operates three main public industrial estates

- Al Hassan Industrial Estate, located in the north near Irbid
- King Abdullah II Industrial Estate (also known as Sahab), located in the center of the country near Amman
- Al-Hussein bin Abdullah Industrial Estate, located near Karak in the south

The largest and oldest of these is the Sahab Industrial Estate, which was inaugurated in 1985.

Jordan's industrial estates are considered moderately competitive. Among the existing investment incentives contributing to this competitiveness are the following.

- Availability of cost-effective land and factory buildings
- Alternative of buying or renting plots of land or standard factory buildings
- Reasonable cost of utilities, including power and water
- Comprehensive network of roads and infrastructure
- Availability of a wide range of ancillary services
- Ease of access to regional and international markets

These incentives are described in detail in the following section.

In comparison with other industrial estates in the Middle East, workers' wages are high vis-à-vis those in Egypt, but competitive with those in Saudi Arabia and the United Arab Emirates. In particular, skilled labor is very competitive in terms of both availability and cost. Labor is available in Jordan's north and central regions, but investors looking for opportunities in the south must train and assimilate workers into the assembly line workforce culture.

Electricity tariffs in Jordan are competitive for low energy-intensive industries, but less so for industries requiring high-capacity power. Jordan's industrial estates are very competitive in terms of water costs with other regional industrial estates. Only Port Said offers significantly lower water tariffs for large water-consuming industries. JIEC maintains high standards of infrastructure in its industrial estates, as well as consistent application of procedures and

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<sup>&</sup>lt;sup>9</sup> The information presented in this section of the report is based largely on the AMIR Program report entitled "JIEC Market Demand Study for Serviced Industrial Estates," April 2002.

service delivery. They are very competitive with private industrial estates in terms of cost of land and buildings.

Despite these factors in which Jordan is known to compete effectively, it has been noted that investors in Jordan's industrial estates are constrained by relatively high transportation costs, delays, and infrequent shipping schedules in both Aqaba and Haifa ports. These constraints are disincentives for companies requiring fast transit times for the import and export of raw materials and finished products.

Political tensions in the region may have impeded investment in Jordan's industrial estates, although Jordan's political risk rating is nearly the lowest in the region. Accordingly, investors familiar with the Middle East should continue to find a stable investment platform in Jordan.

#### Infrastructure at JIEC

With regard to existing infrastructure across JIEC-sponsored projects, all plots of land are leveled, developed, and serviced with the following networks

- Electricity
- Telecommunications
- Water and sanitary services
- Sewage treatment plants
- Roads
- Parking lots

JIEC has also developed plots and services land along with ready-made, standard factory buildings (SFB) to meet the requirements of different industries with a choice of lease or buy. JIEC has the lowest selling and rental rate for both plots of land and SFBs in both Jordan and the region.

Among the specific investment incentives on offer at the JIEC are the following.

- Two-year income tax exemption
- Full capital repatriation
- Free transfer of shares
- Equal treatment for both local and foreign investors

Additionally, JIEC provides its investors with ancillary services, which include the following.

- Customs Department center
- Investor services bureaus (also known as "one-stop service shops") that process building license applications in less than one week. Professional licenses are issued simultaneously. Connection to power, water, and telecommunications services are reported to be complete in a few days.
- Liaison office for the armed forces
- Liaison office for Science and Technology University
- Bonded warehouses
- Ministry of Labor office
- Branch of the Chamber of Industry
- VTC center for the supply of work force to industries located within industrial estates
- Social Security office
- Civil Defense Directorate office
- Commercial banks
- Insurance companies
- Clearance offices
- Exhibition hall for industrial projects

- Post office
- Gas, maintenance, and fire stations
- Clinics
- Advertising agencies
- Kindergartens
- Secondary high school

#### JIEC in Numbers

Table 4.2 shows a break-down of the number of projects, value of investment, and employment, according to industrial estate. The three public industrial estates at JIEC combined have more than JD1.2 billion of invested capital, of which JD183.5 million was invested during 2000-2003.

Table 4.2: Overall Investments in JIEC (June 2004)

Industrial Estate/Location	No. of Projects	Investment Value (JD million)	No. of Workers
Abdullah II Bin Al-Hussein/Amman	412	951.4	15,359
Al Hassan/Irbid	85	225.6	18,465
Al Hussein Bin Abdullah II/Karak	6	41.5	5,200
Total	503	1,218.5	39,024

Source: JIEC

#### Collaboration Between Universities and JIEC

Over the past couple of years, a number of cooperation agreements have been successfully arranged between local universities (i.e., JUST, Balqa Applied University, and Mu'tah University) and JIEC. The main objective of these agreements is to provide mutual benefits for all parties involved. University lecturers are to provide various services including studies on productivity enhancement, training courses, involvement in technical committees, and sabbatical leaves to be taken at companies. JIEC is to provide summer training to students at establishments located in industrial estates and suggest thesis options for graduate research projects that could benefit the industrial estates.

#### **Indirect Government Funding**

Government has undertaken a variety of initiatives, ranging from private equity to loan guarantees to subsidized debt, to ensure that economic projects in targeted sectors have access to adequate financing. Following is a brief description of the three leading initiatives.

## Jordan Fund

Launched in October 2002, Jordan Fund is a \$50 million, seven-year, closed-end private equity fund created to make investments in mid- to late-stage private Jordanian companies.

The Cayman Islands-based fund, which is the first such private equity fund in Jordan, groups Deutsche Bank, Atlas Investment Group, and Foursan Group. It was seeded by government with an initial contribution of \$20 million, mainly from privatization proceeds. It will raise the additional \$30 million from institutions and individuals in the Middle East, as well as outside the region.

The two groups will act as investment managers of the fund, while Deutsche Bank's role will be that of its international advisor. The fund has a five-member board, where the government and the German bank will have two seats each while the fifth will be controlled by the Atlas and Foursan groups.

It will have two phases. The first four years (named the investment period) will aim at generating investment opportunities, while the remaining three years will aim at reaping the fruits of the investments and exiting from the market. Exiting is expected to occur either through listing the firms in the Amman Stock Exchange, selling the fund's shares to strategic investors or mergers between, for example, two or three companies. The size of the fund's investment will range from \$3 to \$7 million, permitting it to create a diversified portfolio of companies. The Fund will focus especially on firms established to take advantage of the Free Trade Agreement with the United States and other free trade initiatives; consolidation and turnaround plays in established Jordanian companies; and joint ventures or direct investments by foreign investors in Jordan.

## Jordan Loan Guarantee Corporation

The mission of the Jordan Loan Guarantee Corporation (JLGC) is to enhance sustainable economic growth in Jordan through improving the credit environment available to the economically viable small- and medium-sized enterprises and national exports by providing them with credit and loan guarantees.

The goals and objectives of JLGC are as follows.

- Utilize guarantees to fully or partially cover the risks of loans granted by banks and financial institutions. These loans should be directed towards establishing economic projects or expanding existing ones in order to increase production capacity and marketing efficiency as well as create new job opportunities and the possibility of earning or saving foreign currencies.
- Utilize guarantees to cover the risks involved in export credit, particularly in those industrial sectors, which are in line with the aims of JLGC.
- Develop tools, means, and models related to the work of JLGC (whether modern or conventional) and train staff on their use in various fields. This includes the guaranteeing of credit operations in line with the doctrines of the Islamic Law (Sharia') and those which realize JLGC objectives.

The Jordan Loan Guarantee Corporation was established as a public shareholding company in accordance with the Jordanian Companies' Law and registered in the registry of the public shareholding companies on 26 March 1994. The establishment of JLGC came in response to the decision undertaken by the Cabinet session of 24 August 1993, which approved the establishment of a public shareholding company for guaranteeing loans to small- and medium-sized organizations.

The subscription of JLGC's shares would be limited to the Central Bank of Jordan (on behalf of government), financial institutions, insurance companies, and other related establishments. Its capital was to be JD7 million. The Central Bank of Jordan's subscription in JLGC came out of a USAID grant, which was included in the agreement of the loan guarantee project. In 1997, JLGC took on the function of export credit guarantee, and its capital was increased to JD10 million accordingly.

There are currently twenty-two shareholders of JLGC, including the Central Bank of Jordan, sixteen commercial and specialized banks, one insurance company, one financial services corporation, the Social Security Corporation, the Cities and Villages Development Bank, and the Amman Chamber of Commerce.

Following is some information about JLGC programs.

## **Loan Guarantee Scheme for Small- & Medium-Sized Enterprises**

 Guarantees intended for productive, private sector, SME (i.e., labor force not exceeding 50 employees) projects

- Intended for new projects or expansion / modification of existing ones
- 75 percent guarantee of outstanding balance for all types of loans up to JD40,000
- 50 percent guarantee on loans in range of JD40,000-100,000
- Loans in excess of JD100,000 may be partially guaranteed
- Loan period cannot exceed six years, including one-year maximum grace period
- Participating bank is assigned a 1.5 percent charge on the total ceiling for guarantees allocated to that bank

During the past ten years, this program has received 2,392 applications from participating banks valued at JD44.7 million. A total of 1,869 guarantees were executed for loans valued at JD33.4 million. The outstanding balance of JLGC's guaranteed portfolio at the end of 2003 was JD6.5 million.

## **Industrial Modernization Loan Guarantee Scheme (EJADA)**

- Guarantee contract covers all the SME's loans up to JD 430,000
- Guarantee covers 70 PERCENT of the lost value caused by any of the commercial risks outlined in the guarantee contract
- Maturity Period ranges between three and eight years, including the grace period
- Maximum grace period is two years
- Participating bank is assigned up to 1.5 percent charge on the usage of guarantees allocated to that bank
- Enterprise owners' contribution is 25 percent of total costs.

Since launching the Industrial Modernization Loan Guarantee Scheme in 2001, 47 applications were received totaling JD8.9 million, of which 36 loans were executed or are in the process of execution valued for JD5.6 million with a guaranteed amount of JD3.77 million.

# Loan Guarantee Scheme for Productivity Enhancement (IRADA)

- Guarantees intended for productive, private sector, SME (i.e., labor force not exceeding 50 employees) projects
- Intended for new projects or expansion / modification of existing ones
- 70 percent guarantee of outstanding balance for all types of loans up to JD25,000
- Loans exceeding JD25,000 may be partially guaranteed
- Loan period cannot exceed five years, including a one-year maximum grace period
- Participating bank is assigned a 1.5 percent charge on the total ceiling for guarantees allocated to that bank

#### Development and Employment Fund

The Development and Employment Fund (DEF), which established in 1991 as a public institution under the IDB umbrella, addresses the development and finance of small business projects. DEF became independent in 1992, consequently enjoying financial and administrative independence. DEF offers direct lending in the following various forms for micro- and small-sized projects.

- Direct lending takes the form of:
- Household loans (JD1,500 maximum)
- Individual loans (JD10,000 maximum)
- Group loans (JD15,000 maximum for each partner, JD100,000 maximum for each project)
- Upgrading loans (25 percent of working capital maximum)

The fund requests one of the following as risk adherence measures.

• Monthly salary that is not transferred to a bank, worth 160 percent of payment value

- Real estate collateral that covers 160 percent of the loan and its profit
- Collateral of project's belonging (collective projects)
- Bank affidavit renewable every year that covers 160 percent of the loan's value
- Personal affidavit for loans less than JD2,000
- Signing of bank checks to cover the amount of the loan and its profit

# 4.4 Concluding Observations

Despite the fact that Al Hussein Industrial Estate is located in Zone C as stipulated by The Investment Law and thus receives the greatest fiscal incentives, it performed remarkably low on investment attraction when compared Sahab Industrial Estate (located in Zone A) and especially when compared to the private industrial estates (i.e., Al-Tajamouat, Dulayl). The latter were established after the initiation of Al Hussein Industrial Estate, do not offer the additional two-year income tax exemption that JIEC estates offer, and are not linked to a university.

In trying to determine whether fiscal incentives (especially those offered by the JIEC Law 59 of 1985 on investment incentives<sup>10</sup>) or the services, labor, and infrastructure available at the industrial estates are the main drivers to attract investments in a certain area of Jordan, the case of Al Karak must be fully examined. If fiscal incentives were the main motive for investment, when comparing the three industrial estates located in Al Karak, Amman, and Irbid, then Al Hussein (located in Al Karak, Zone C) should have been Jordan's preferred investment area. As Table 4.2 shows, this is definitely not the case.

However, as Table 4.3 illustrates, for all investments in Jordan, it appears that on average during 1996-2003 most investment activity in Jordan took place in Zones A and C. For example, Zone A (offering less attractive financial incentives compared with other zones) enjoys the greatest share of investment of all zones in terms of number of projects and nearly matches the average share of investment value in Zone C (offering the most attractive financial incentives). In contrast, on average Zone C boasts the fewest number of investment projects relative to average investment value. It would therefore be useful to investigate why, on average, investors seem to have made a choice between Zone A and Zone C.

#### **Investor Feedback**

To solicit views on the current investment climate in Jordan, officers at the JIEC Investment Services Bureau (ISB) and investors from various public and private industrial estates were interviewed as part of the research undertaken for this report. (See Annex 6 for further information.). An ISB officer reported that site visits to industrial estates located close to Amman or to its north usually lead the investor to prefer the establishment of his investment in the location where he visualizes business movements through trucks and similar forms of transportation, rather than investing in the southern part of the country that is semi-deserted and rural. Others reported that the dismal performance of Al Karak is due to the lack of sufficient and adequate marketing and promotional planning, especially during the last couple of years. Recently the ISB of the JIEC developed a marketing strategy that reportedly will improve the performance of its affiliated industrial estates, especially the one located at Al Karak.

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<sup>&</sup>lt;sup>10</sup> JIEC Law 59/1985 offers: (a) 100 percent exemption for two years on income and social services tax; (b) total exemption from tax on buildings and land; and (c) exemption or reduction on most municipalities. The Investment Promotion Law 16/1995 offers (a) 100 percent exemption on taxes and fees of fixed assets, fixed assets needed for expansion, and spare parts; (b) a 10-year exemption from income and social services taxes for projects approved by the Investment Committee at the following rates depending on sector and the area in which the project is located, as follows: Zone (A) – 25 percent, Zone (B) – 50 percent, Zone (C), 75 percent.

Table 4.3: Investments in Zones by Number of Projects and Investment Value (1996-2001)

	Zon	e A	Zone B		Zon	Zone C		No Zone		Total	
Year	No.	Value	No.	Value	No	Value	No.	Value	No.	Value	
1996	118	162	45	64	41	85	47	37	251	348	
1997	83	163	29	42	41	122	31	53	184	380	
1998	87	216	31	49	45	122	36	105	199	492	
1999	129	124	57	138	56	139	70	148	312	549	
2000	121	115	39	59	38	532	63	88	261	794	
2001	117	167	37	37	58	175	78	503	290	882	
2002	122	68	69	162	46	24	73	47	310	301	
2003	92	90	47	68	39	26	110	78	288	262	
Total	869	1105	354	619	364	1225	508	1,059	2,095	4,008	
Average	109	138	44	77	46	153	64	132	262	501	
Share	41%	28%	17%	15%	17%	31%	24%	26%	100%	100%	

Source: Jordan Investment Board.

Notes: (1) Investment values are expressed in JD million; (2) "No-Zone" projects are those that existed prior to the investment Promotion Law, but expanded later and benefited from that law.

In the case of Al Karak Industrial Estate, although the investors interviewed stated Zone C tax exemptions as being important in their decision to invest in that location, they placed greater weight on a number of issues related mainly to the quality of the local workforce and estate management. More specifically, they viewed the poor work ethic of the local workforce as an impediment to fully capitalize on the tax exemptions granted. There was a general consensus that a tax exemption would rank inferior to other key success factors such as quality of infrastructure, industrial estate management support and professionalism, and industrial work ethic by the locals that was reported to be of higher significance than technical competence.

In contrast, there was a general consensus amongst investors in other industrial estates that, if they ever considered investing in less developed areas such as Al Karak and Ma'an, fiscal incentives would be considered insufficient as investment decision factors if not coupled with quality physical infrastructure in terms of road networks, transportation facilities, and other utilities. Investors also stressed the importance of an adequate business support infrastructure in terms of availability of governmental representatives (from Ministry of Industry & Trade, Ministry of Labor, and Jordan Customs Department). Additionally, investors voiced significant concerns about labor and discussed this issue at great length. Moreover, investors stated that they fear the tribal spirit of the local population at Al Karak, and that "they have an agrarian way of living and do not appreciate, nor they have the minimum requirements, to be engaged in an industrial lifestyle that is required at the industrial estates." A common phrase encountered was: "We are already suffering from laborers and their bad work behavior from absenteeism to passiveness in Amman. Imagine how it would be in Al Karak!"

In summary, survey results indicate that investors would consider Al Karak or any other less developed area as a possible investment destination if the following conditions were met:

- Labor laws and regulations regarding foreign workers are facilitated.
- Industrial-friendly and competent and supporting infrastructure exist.
- All facilities and services available in Amman (governmental offices including customs, banks, transportation, easy logistics, and the like) are also available in Al Karak
- Administrative and procedural issues are handled through an effective and supportive management.

- Some existing or possible investments exist that provide backward and forward linkages to the project.
- The costs of rental and selling of buildings and land are significantly less than industrial estates located in other parts of the country.
- Facilities and utilities are less expensive than in other parts of the country.

Investors in Abdullah II and Al Tajamouat Industrial Estates also voiced concerns about labor issues. They are not content neither with the technical skills of local laborers or with their work ethic. Investors seem to favor local workers if they meet the average standards that any investor requires. However, due to the lack of availability of locals who can satisfy the investors' needs, investors tend to hire foreigners who are more productive and are known to be more responsible than locals. In this regard, most of the investors interviewed reported that the Labor Law is cumbersome and the procedural aspect of it (e.g., visas and work permits required for foreign laborers) is tiring.

Investors that are located close to Amman reported that their main motivation to invest in their current location was the proximity to services and facilities (banks, governmental organizations, and customs office). Furthermore, investors favored Amman because it is an economic hub and logistics are not a problem. Investors also complained about the bureaucracy and red tape of the government procedures and administrative practices. One investor said: "The problem is not in the law as much as it is in the execution of that law; procedural and administrative issues are tiring us." Therefore, it is safe to conclude based on the investors' feedback, that Jordan's various attempts at non-fiscal incentives for regional/rural development have also been largely unsuccessful. Al Karak is stagnant, ASEZ is not yet delivering on its promise, and Ma'an is an anomaly that cannot regularly be repeated.

As for Jordan's attempts at sectoral/industrial targeting through non-fiscal incentives, by availing infrastructure and skills at industrial estates housing the manufacturing sector, it can be argued that these have been more successful than targeting the development of regions and rural areas. JIEC and other private industrial estates have managed to attract investments into the manufacturing sector. While the QIZ agreement explains much of the growth in most of the industrial estates over the past few years, JIEC's Sahab Industrial Estate stands out as a testimony to the success of a sectoral targeting effort *per se*. It seems that investors jumped at the opportunity of having serviced industrial land and the relative availability of better-skilled labor, provided they were close to Amman.

#### ANNEX 1: SCOPE OF WORK

# I. Specific Challenges Addressed by this Consultancy

In June 2003, Jordan passed Interim Law No. (68) for 2003: The Investment Law as one of five laws in a legislative reform package to modernize Jordan's national effort for investment promotion and enterprise development. The Investment Law repeals The Investment Promotion Law of 1995 and requires that the program investment incentives that it offered be reconsidered and redefined in a regulation issued pursuant to the law. The Investment Law requires the same of the program of investment incentives offered by the Jordan Industrial Estates Corporation offers pursuant to The Jordan Industrial Estates Corporation Law of 1985.

The AMIR Program has recently completed a major study on behalf of the Minister of Industry & Trade to serve as the basis for the regulation required by The Investment Law. This study evaluates the existing incentives program, which relies on highly selective (e.g., sectoral, regional, and conditional) income tax reductions and capital good duty exemptions, and recommends a new program, which promises greater effectiveness and efficiency by replacing the current, selective income tax reductions with universal accelerated depreciation and the current, selective capital good duty exemptions with universal capital good duty exemption. These findings and recommendations of this study were recently presented to the Minister of Industry & Trade and a group of leading stakeholders.

While the Minister received the recommendations of the study positively, he asked two questions to which he requires answers before moving forward. First, since the study has demonstrated that fiscal incentives (i.e., income tax reductions and holidays) on which Jordan has relied to attract investment in targeted sectors and regions are ineffective, the Minister wonders what other tools are available to government to achieve this end more effectively. Second, the Minister wonders if Jordan must offer something more to investors than its competitors, in order to compensate for the fact that it is located in a volatile geopolitical environment. It is worth noting that the basis of these concerns (i.e., the perception that replacing selective income tax reductions with universal accelerated depreciation and selective capital good duty exemptions with universal capital good duty exemption represents a *reduction* rather than an expansion of incentives) suggests that the value to investors of a simple, transparent corporate taxation program may not yet be fully appreciated by stakeholders.

The Minister has requested that the AMIR Program produce a report that addresses these issues in four to six weeks. It is important that this request be satisfied, in order to avoid the possibility of an undue delay in the Minister's implementation of the recommendations made by the aforementioned investment incentives study.

# II. Objective of this Consultancy

The objective of this consultancy is to provide decision support to the Minister of Industry & Trade – as he considers revising Jordan's investment incentives program – by describing the non-fiscal measures available to government to promote rural development, target the development of particular industries, and compensate for regional volatility.

# **III.** Specific Tasks of the Consultant

Under this Scope of Work, the Consultant(s) shall perform, but not be limited to, the tasks specified under the following categories.

## A. Background Reading Related to Understanding the Work and its Context

The Consultants shall read, but is not limited to, relevant sections of the following materials to understand fully the work specified under this consultancy.

- 1. AMIR Program. "Reformulating the Tax Incentive Program in Jordan: Analysis and Recommendations" (August 2004)
- 2. AMIR Program. "JIEC Market Demand Study for Serviced Industrial Estates (April 2002)
- 3. AMIR Program. "Jordan Investor Targeting Strategy 2003" (July 2003)
- 4. Interim Law No. (68) of 2003: The Investment Law
- 5. FIAS. "Aide-Memoire: Draft Investment Law Comments." (April 2003)
- 6. Law No. (16) of 1995 and its Amendments of 2000: The Investment Promotion Law
- 7. Regulation No. (54) of 2000: Regulating Non-Jordanian Investments Issued Pursuant to Article (24) of the Investment Promotion Law No. (16) of 1995
- 8. Regulation No. (2) of 1996: The Regulation of the Investment Areas and Sectors Issued Pursuant to Article (4) of the Investment Promotion Law No. (16) of 1995
- 9. The Jordan Industrial Estates Corporation Law of 1985
- 10. Income Tax Act No. (57) of 1985 and Act amending thereto No. (25) of 2001
- 11. Relevant literature regarding best practices for non-fiscal investment incentives
- 12. AMIR 2.0 Technical Proposal

# B. Background Interviews Related to Understanding the Work and its Context

The Consultants shall contact personally, by e-mail, or by telephone the following individuals in order to fully understand the work specified under this consultancy.

- 1. Greta Boye, PSPI Team Leader, AMIR Program
- 2. Brad Fusco, Manager, Investment Promotion Subcomponent, AMIR Program
- 3. Amer Hadidi, Director, Industrial Development Directorate, Ministry of Industry & Trade
- 4. Jamal Al-Jabiri, Project Management Specialist, U.S. Agency for International Development

# C. Tasks Related to Achieving the Consultancy's Objectives

The Consultants shall use his or her education, considerable experience, and additional understanding gleaned from the tasks specified in A. and B. above to accomplish the following.

## DC

# Describe International Best Practices with regard to Non-fiscal Measures to Attract Investment

The consultant should place special emphasis on the theories offered by recent scholarship on this subject.

The consultant's discussion should correspond directly to the three applications of concern to the Minister, namely (1) rural development, (2) targeting the development of particular industries, and (3) compensating for regional volatility.

The consultant should discuss the effectiveness of targeted (i.e., by region or industry) versus universal interventions to attract investment.

Wherever possible, the consultant's discussion should be illustrated by specific examples of international best practices in this area.

The consultant should ensure that the discussion in this report relates to that contained in the

AMIR Program report entitled "Reformulating the Tax Incentive Program in Jordan: Analysis and Recommendations" (August 2004).

#### ER

# Describe Irish Experience with Non-fiscal Measures to Attract Investment

The consultant should place special emphasis on the practical experiences of Ireland, which is considered a model for international best practices in this area.

The consultant's discussion should correspond directly to the three applications of concern to the Minister, namely (1) rural development (e.g., the west coast of Ireland), (2) targeting the development of particular industries (e.g., information technology, research and development, financial services), and (3) compensating for regional volatility (e.g., conflict in Northern Ireland).

The consultant should discuss in detail the particular measures taken by government that have proven to be effective in attracting desired investment.

This discussion should touch on the importance of fiscal versus non-fiscal measures to attract investment.

This discussion should place special emphasis on non-fiscal measures to attract investment, including (but not be limited to) such measures as the following.

- Provision of adequate skills (e.g., targeted and/or subsidized education and training of workers) and training incentives
- Provision of adequate infrastructure (e.g., targeted and/or subsidized construction of business premises, roads, and utilities) and property incentives
- Various other subsidies or grants to investors
- Various government-sponsored investment funds (e.g., Partnership Venture Capital Funds, Seed Capital Funds, State Venture Capital Company) and research funds (e.g., in the areas of ICT and biotechnology)
- Tax efficient loans

The consultant should set his discussion of the particular measures taken by government that have proven to be effective in attracting desired investment within the broader context of all the measures (i.e., both effective and ineffective) that Ireland has employed over the past 30 years to attract investment, in order to relate the lessons that have been learned.

The consultant should discuss the effectiveness of targeted (i.e., by region or industry) versus universal interventions to attract investment.

The consultant should discuss the pros and cons, as well as the process of actively negotiating with prospective investors to win projects (as opposed to simple promotion, whether passive or active) and tailoring investment incentives packages to their needs. Case studies might include Ireland's successful attraction of investment from such multinational companies as Intel, Fujitsu, Novartis, Heinz, 3-Com, Sun Microsystems, and Wyeth.

Wherever possible, the consultant's discussion should be illustrated by specific examples and supported by data.

#### **RD**

## **Describe Jordanian Experience with Non-fiscal Measures to Attract Investment**

The consultant should place special emphasis on practical experiences in Jordan.

The consultant's discussion should correspond directly to the three applications of concern to the Minister, namely (1) rural development, (2) targeting the development of particular industries, and (3) compensating for regional volatility.

The consultant should discuss in detail representative measures taken recently by government, beyond the provision of fiscal incentives under the Investment Promotion Law of 1995, to attract desired investment.

This discussion should include (but not be limited to) such measures as the following.

 Construction of public industrial estates by the Jordan Industrial Estates Corporation, especially the Al Hussein Industrial Estate in Karak

Wherever possible, the consultant's discussion should be illustrated by specific examples and supported by data.

#### TW

## **Edit and Format Report**

- Combine the material composed by the three authors on the subjects of (1) recent scholarship and international best practices related to non-fiscal investment incentives, (2) experience with the application of non-fiscal investment incentives in Ireland, (3) experimentation with the application of non-fiscal investment incentives in Jordan into a single, coherent report.
- Ensure that the language of the report is consistent with standard professional English, as defined by *The AP Stylebook*. This includes spelling, grammar, syntax, and style.
- Ensure that the formatting of the report is consistent throughout and based on the PSPI Document Template. This includes text, tables, figures, and headings.
- Document all changes for ultimate acceptance or rejection by the project manager.
- If necessary, provide the project manager with suggestions regarding the content (especially passages that are unclear to the lay person) and organization of the report.

#### **IV.** Time Frame for the Consultancy

Unless otherwise specified in writing, the time frame for this consultancy is specified by the expenditure start and end dates shown in Annex C.

## V. LOE for the Consultancy

The days of level of effort are allocated by location in Annex C.

## **VI. Consultancy Qualifications**

The Consultant(s) shall have the following minimum qualifications to be considered for this consultancy:

#### ER

- 1. Educational Qualifications
  - Minimum of a Bachelor's degree in relevant discipline.
- 2. Work Experience Qualifications
  - At least twenty years of practical experience in the field of national investment promotion
  - Substantial experience with the use of both fiscal and non-fiscal investment incentives for the attraction of investment
  - At least five years of experience advising governments in developing countries on issues of investment promotion and incentives

#### DC

## 1. Educational Qualifications

Ph.D in Economics

- 2. Work Experience Qualifications
  - At least ten years of experience conducting research related to investment incentives
  - At least five years of experience advising governments in developing countries on issues of investment incentives
  - Strong familiarity with scholarly literature and international best practices surrounding fiscal and non-fiscal investment incentives

# RD

- 1. Educational Qualifications
  - Minimum of a Bachelor's degree in relevant discipline.
- 2. Work Experience Qualifications
  - Substantial experience with issues of investment promotion
  - Strong familiarity with Jordanian context

#### TW

- 1. Educational Qualifications
  - Minimum of a Bachelor's degree in relevant discipline.
- 2. Work Experience Qualifications
  - At least five years of experience writing and editing reports in English
  - Strong familiarity with the rules and principles of standard, professional English

#### ANNEX 2: IRISH MULTINATIONAL INVESTMENT CASE STUDIES

# A2.1 Apple Ireland

Apple's expansion of its Irish operation is based on the access to skilled expertise across multi-disciplinary business, operational and technical functions. The basing of its European Headquarters in Ireland is a reflection of the contribution that the Cork operation is making to Apple Inc.

Industry: Information and Communications Technology (ICT)

**Business Activities: Headquarters** 

## Apple at a Glance

• Established: 1977

Global Workforce: 10,912Sales 2003: \$6.2 billionProfit 2003: \$69 million

Ticker: AAPL

Operating Centers: Americas, EMEA, Japan, Asia Pacific

Description: Designs manufactures and markets personal computers and products including iMac, Power Macintosh, ibook, Powerbook, software, services and more recently the iPod and iPod mini.

Business Strategy: Apple believes that the personal computer has become a digital hub for multifunctional activities from business, entertainment and creativity. Apple has recently commenced its retail initiative in the US and beyond and continues to focus on education and is particularly successful in creating brand loyalty with creative professionals. Apple has announced its intention to open its first retail store in London this year.

# **Apple in Ireland**

Apple Computer Ltd was established in Cork in 1980 to manufacture the Apple Mac PC.

This integrated manufacturing site has evolved to become a multi-functional manufacturing and services site for EMEA and is now Apple's European Headquarters.

Apple employs 1,460 personnel at its Cork site.

## Ireland's Multi-Disciplinary Skilled Workforce

Apple's expansion of its Irish operation is based on the access to skilled expertise across multi-disciplinary business, operational and technical functions. The basing of its European Headquarters in Ireland is a reflection of the contribution that the Cork operation is making to Apple Inc.

## One Site - Many Functions

The Apple site started as a manufacturing plant. While retaining some important manufacturing functions, the site has expanded and moved up the value chain, creating centers of excellence across business functions. Access to a highly skilled multi-disciplinary workforce is a key factor in this development.

"The plant has a smart, well-educated, English-speaking and flexible workforce. Ireland has a competitive telecoms and e-commerce infrastructure and the tax structure is very favorable within a global context"

"....we have learnt that we have great people who are willing to adapt and learn new skills and processes"

Joe Gantly, Senior Director, European Operations, Apple Ireland

The Irish operation has responsibility for the following services across EMEA.

- Contact Centre
- Telesales
- Order management
- IT
- Operations (service, repair, customer contact)
- Materials procurement
- Financial Shared Services
- Logistics
- Manufacturing of G5
- Business Process Engineering
- Service and Repair Depots
- Software testing and localization

"We've taken a lot of functions and processes into this facility that were previously all over Europe. Our challenge was to integrate processes, and thereby reduce costs and decrease time to market. Our competitive advantage is that we have been successful in integrating and improving processed in a manner that benefits Apple and our customers in Europe"

Joe Gantly, Senior Director, European Operations, Apple Ireland

## **Business and Financial Expertise**

Apple's European Treasury and Financial Shared Services functions are based in Ireland.

#### **Customer Service**

The success of international customer service bases in Ireland is built on the natural problem solving abilities and openness that is inherent in the Irish culture.

## **Multilingual Workforce**

Access to multilingual skills locally is crucial and the employees at the Cork campus communicate with their clients in German, French, Italian, Spanish, Dutch, Swedish and Finnish.

#### **Outlook**

"We have moved beyond developing European processes into now developing global processes. Moving up the value chain brings with it its own competitive challenges. Our focus, as we move forward, is to integrate all of these functions and processes into a world-class, lean, cost-effective model that really adds value to Apple and to our customers"

Joe Gantly, Senior Director, European Operations, Apple Ireland

# Additional Benefits of Locating in Ireland

- Availability of skilled labour
- Flexibility of labour market
- Favourable corporation tax rates

## **A2.2 Oracle Corporation**

Oracle Corporation develops database and application server technology, business applications, collaboration software and portal and mobile technology. It also provides consulting and training services to clients.

Industry: Information and Communications Technology (ICT)

#### **Business Activities:**

- Research and Development (R&D)
- Sales & Marketing

"Ireland is the economic success story of Europe in recent years. Business-friendly policies have created the fastest growing economy in Europe. This, coupled with a smart, young, flexible, multi-lingual workforce, means that Ireland offers successful multinationals like Oracle a uniquely dynamic environment from which to trade globally."

Nicky Sheridan, Vice President & Managing Director, Oracle Ireland

#### **Oracle at a Glance**

Global Workforce: 41,658
Revenues 2003: \$10.26 billion
Net income 2003: \$2.7 billion

#### Oracle in Ireland

Oracle was established in Ireland in 1997. Oracle Ireland now employs 900 people across several key international (EMEA) business divisions.

#### **Oracle Direct**

Ireland was the first location outside of the USA to use the Oracle model, which is a telesales operation servicing customers throughout the EMEA region. It is now the management centre of six Oracle Direct locations in EMEA.

#### **European Product Development Centre (EPDC)**

EPDC has global development responsibility for migration and certification framework products and responsibility for the test and release of Oracle server products across all of the key platforms.

#### **Worldwide Product Translation Group (WPTG)**

WPTG is responsible for the creation, engineering and management of Oracle's non-English product, education courseware and much of its consulting material for 29 different languages worldwide.

#### **International e-Business Centre**

This centre provides a full range of finance and administrative support services to Oracle's EMEA subsidiaries and customers. The shared services centre is now used by the corporation as an international showcase of best practice in shared services.

# **EMEA Manufacturing and Logistics**

This group is responsible for Manufacture and Distribution of products and the provision of logistics services to all countries in EMEA.

#### Global IT

The Global IT organization supports Oracle's existing IT Network infrastructure and also provides multi-lingual support to Oracle employees globally.

## **Oracle University (OU)**

OU is a centralized sales centre for Oracle's training products, selling into countries in EMEA.

## Sales, Marketing Consultancy Ireland

Oracle also has a sales and marketing division for the domestic Irish market.

## Oracle's Benefits of Locating in Ireland

Shared Services and Management Acumen

Oracle's locating of EMEA responsibility in Ireland for business and operational functions allows access to the high standard of managerial and commercial acumen within the Irish labor market.

#### Ireland's IT Workforce

The Irish Government identified the IT sector as a priority in the 1970's. Ireland now has a worldwide reputation for IT excellence with a highly skilled workforce of IT professional across multi-platforms, applications and skill levels.

## Innovation and Development

An increasing number of global companies are locating research and development functions in Ireland. Access to 3rd level educational institutions and a culture of initiative and excellence makes Ireland an ideal location for Oracle product development for the EMEA.

#### English Language and Multi-lingual Professionals

An English speaking workforce and the growing number of European language speakers based in Ireland is key to Oracle's Irish localization operation.

#### Favorable Tax Benefits

The favorable inward investment tax benefits offered by the Irish Government have allowed Oracle to grow its operation in Ireland and build efficiencies for serving and developing the EMEA market.

#### A2.3 Intel

The company is focused on the convergence of computer and communications technologies and manufactures chips, boards systems, software and network and communications equipment. Intel currently has 15.3% of the world's semiconductor market.

Intel's success stems from investment in R&D, its scale of operation and consistency of standards worldwide.

Industry: Information and Communications Technology (ICT)

**Business Activities:** 

- Research and Development (R&D)
- Production

"One of the main reasons that Intel Ireland has been so successful is that we have an excellent employee base. Our employees have consistently proven their ability to master the engineering, scientific and manufacturing disciplines involved in the world's most advanced technologies."

Jim O'Hara, Vice-President TMG and General Manager, Intel Ireland

#### Intel at a Glance

- Established: 1968,
- Global Workforce: Intel employs approx 79,700 people in 120 countries.
- Financial Information (2003): €30.1 billion with net profit of €5.64 billion

Description: The company is focused on the convergence of computer and communications technologies and manufactures chips, boards systems, software and network and communications equipment. Intel currently has 15.3% of the world's semiconductor market.

Intel's success stems from investment in R&D, its scale of operation and consistency of standards worldwide.

#### Intel in Ireland

The Irish operation employs 4,700 people directly and indirectly in engineering, technical and operational activities.

Ireland Fab Operations (IFO), comprised of Fab10 and Fab14, manufactures microprocessors and their associated controller chipsets on 200mm wafers and has invested in equipment for the production of flash technology.

Fab 24 manufactures leading edge microprocessors and logic chips on 300mm wafers using 90 nanometer technology. This is Europe's first high volume 300mm fabrication facility operating on 90nm technology.

A new wafer Fab, Fab24-2, announced in May 2004, will use the latest 65nm technology to manufacture the next generation of semiconductor products.

Intel Communications Europe (ICE) This is the European research and development arm of Intel's networking and communications group developing network processors, optimized for packet processing which are utilized in the communications and control industries.

IT Innovation Centre whose global headquarters is based in Ireland develops 'proof of concept' designs for innovative solutions to be utilized in education, health and egovernment.

### People at the Heart of Intel Ireland's Success

The attitude and talents particular to the Irish workforce create the foundation stone for Intel Ireland's success.

## **Highly Skilled Workforce**

Ireland's fostering of highly qualified professionals in technological disciplines is a key factor to Intel Ireland's success. Employing 3,400 full time employees and 1,200 long term contractors many of whom have a technological qualification, Intel has access to skills which are fundamental to the company's focus on new technology innovations.

### Flexible, Adaptable and Efficient

Intel Ireland's important role within Intel Corporation is supported by the flexibility and adaptability of the Irish workforce to meet the significant demands and deadlines. This is reflected in the current and planned growth of Intel functions based in Ireland.

#### **Research and Innovation**

Intel's Irish operation works closely with the Corporation's R&D Groups in the US to develop the next generation of manufacturing and process technologies. As well as internal projects, Intel has access to the general engineering and technology development in Ireland through cooperation with research projects in Irish universities.

# **Additional Benefits of Locating in Ireland**

### Capital Investment Opportunities

Intel has availed of Ireland's commitment to support capital investment in technology based operations.

### Management And Operations Excellence

The availability of strong management and operational personnel has contributed to the efficiency of the Irish operation and Intel worldwide.

#### Intel's Irish Location Benefits

- Favourable labour market
- Strong ICT and engineering professionals
- Corporate tax rate
- Research opportunities and collaborations
- Access to innovative and progressive management
- Access to EMEA
- Capital investment relief

#### **A2.4 AOL**

AOL Inc is world's largest Internet access provider with over 32 million subscribers using its services in the US and Europe. It employs 18,000 worldwide.

Industry: Information and Communications Technology (ICT)

**Business Activities:** 

- Research and Development (R&D)
- Sales & Marketing
- Shared Services/Contact Centers

"The Irish AOL sites have consistently exceeded expectations in terms of Customer satisfaction and efficiency. Our site in Waterford (S.E. Ireland) enjoys a reputation as a flagship location amongst our global service sites. At all times we have found our IDA partners helpful and supportive of our Business objectives."

Tony Hanway, Vice President Member Services, AOL Europe Operations Ltd.

### Irish IT and interpersonal skills help AOL meet customer demand

Time Warner at a Glance

- Total Revenues (2003) \$56 billion
- Net Income: (2003) \$2.6 billion
- Employment: 80,000 worldwide

Description: In 2001 America Online Inc merged with Time Warner Inc. The company is one of the world's leading media companies being a market leader in each of its markets; Interactive Services (21% of revenues), Cable Systems (16%), Filmed Entertainment (23%), Network Programming (18%) Music (10%) Publishing (12%)

AOL Inc is world's largest Internet access provider with over 32 million subscribers using its services in the US and Europe. It employs 18,000 worldwide.

## AOL in Ireland

AOL's operations in Ireland access highly skilled professionals across multiple functions including customer support, shared service expertise and IT/Software development.

AOL Europe Operations Ltd (Waterford)

Employing 800, people this Waterford contact centre supplies technical and customer support for AOL's UK market.

AOL Europe Operations Ltd (East Point Business Park, Dublin)

This centre, with a workforce of 70 provides finance, business analysis and IT support

AOL Technologies Ireland Ltd (City West Business Park, Dublin)

Providing software development services for internal customers this site employs 200 people. The centre develops core products for the European and Asia Pacific markets and is the only remote development site outside the US. The operation employs highly skilled IT professionals to develop a diverse range of its functions including client development, localization tools, hosting, search engine technology, e-commerce and billing systems.

## Benefits of Locating in Ireland

#### IT Professionals

The IDA identified Information Technology as a key sector in the 1970's and the investment in IT training and development has attracted global companies over the last three decades. AOL employs highly skilled IT graduates including programmers and architects working across multi-platforms and functions.

#### **Customer Care**

Access to a workforce with customer care skills is key to AOL's presence in Ireland. Its success is based on an excellent telecommunications network, access to an educated Irish labor force as well as the Irish cultural trait of strong interpersonal skills

# **English Speaking Workforce**

English being the predominantly spoken language, Ireland has reduced barriers in programming and inter-entity relationships.

#### Tax Incentives

The favorable corporate tax rate of 12.5% and grant assistance has allowed AOL to create financial efficiencies in the EMEA market.

#### A2.5 Takeda Chemical Industries Ltd.

The largest pharmaceutical company in Japan and now the 15th largest in the world, Takeda Chemical Industries Ltd (Takeda) specializes in the development, manufacturing and marketing of drugs to the cancer, diabetes, hypertension and gastrointestinal areas. The company is the sixth largest in Japan in terms of market value.

**Industry: Pharmaceuticals** 

#### **Business Activities:**

- Research and Development (R&D)
- Production

Takeda has established two strategic operations in Ireland to supply worldwide markets. We required locations that could provide the human infrastructure for this vital step to put in place our global business structure. Shozo Nakamura, Vice-President, Takeda Chemical Industries, Ltd.

#### **Takeda Chemical Industries at a Glance**

Established: 1781

Total Sales (2003): \$10.3 billion
Net profit (2003): \$2.7 billion
Global Workforce: 14,547

Global Operations: Japan, US, Europe and Asia

#### Takeda in Ireland

Takeda first located to Ireland in 1997. The success of its formulation plant is soon to be expanded with the locating of Takeda's first active pharmaceutical ingredient plant outside Japan.

# Formulation Plant (Bray)

Manufacturing products for the European and US markets, the formulation plant in Bray was established in 1997. Three of Takeda's four blockbuster drugs, Prevacid, Blopress and Actos are manufactured in this plant. The facility operates on a 24x7 basis.

#### Fine Chemical Plant, Dublin

The expanding sales in the European and US markets necessitated the creation of a chemical synthesis facility outside of Japan. The new Dublin site at Clondalkin is under construction and will produce active ingredients for Takeda's formulation plants. An important part of the development is the R&D function which will create and manufacture trial batches of products used for development worldwide

# Benefits of Locating in Ireland

#### Pharmaceutical Professionals

Ireland has an established pharmaceutical industry and enjoys an excellent world-wide reputation for commercial pharmaceutical production from manufacturing to distribution. Access to highly skilled pharmaceutical workforce is a key factor to the success of the Irish location.

# **Production Expertise**

Ireland's chemical manufacturing skills have attracted the world's largest pharmaceutical companies for the commercial production of ingredients and finished products. Basing the

manufacturing operations in Ireland allows Takeda an efficient means of servicing the growing demand for their products in the European and US markets

### Logistics

The proximity of Ireland's main port to the facilities in Bray and Clondalkin has enabled Takeda to create logistical efficiencies both for the internal movement of raw materials and developed ingredients and the distribution of products to the European and US markets.

#### Tax Platform

The Irish Government's corporate tax rate of 12.5 % and the availability of capital and operation grants has been of benefit to Takeda.

#### Access to the EU and US

Takeda's locating in Ireland takes advantage of Ireland's geographic location and strong relationships with both the US and Europe.

### ANNEX 3: FURTHER IDA IRELAND GRANT INFORMATION

#### Overview

In terms of the quantum of grants to be offered to a particular firm, IDA Ireland must operate within the financial limits for grant aid set by the European Union. Within this overall framework, grant limits for particular kinds of projects are set out in annual negotiating guidelines by the development agencies and approved by Forfás. These guidelines are not made public by IDA Ireland as it is in competition with other investment promotion agencies worldwide and does not want to reveal its competitive strategy. The final offer, containing full details of the project, is formulated by the case project officer and presented to the Investment Committee or IDA Ireland Board of Directors (depending on the size of the project) for approval. If the cumulative grant aid on offer to the project exceeds certain limits (c.  $\bigcirc$  million), government approval is also required.

# **Grant Approval Process**

IDA Ireland's approval process generally takes a number of weeks. However, the entire process of negotiation can take a number of months, the timescale being largely dictated by the speed with which the applicant company can respond to IDA Ireland and provide it with information. The approval process can be expedited as necessary to meet the needs of promoters who require a very short start-up period. The process will normally involve meetings and discussions between the promoters and IDA Ireland.

#### **Business Plan Contents**

Following an introductory meeting IDA Ireland will, if it is interested in the project, request the submission of a formal business plan. In broad terms, the business plan should cover the following areas.

- Background information on the company, including a brief history of the company, a
  description of its product range and markets, a commentary on the company's
  financial status, and a brief résumé of key individuals in the company.
- Description of the project which it is proposed to locate in Ireland and the reasons for selecting Ireland. This description should cover expected number of jobs to be created, markets to be served from Ireland, the level of investment, and the expected contribution to the Irish economy.
- Ownership structure for the Irish operation.
- Financial projections for five years, with details of the assumptions underlying these projections.

In the normal course of events, IDA Ireland will seek clarification on aspects of the business plan and when these points have been resolved IDA Ireland will make outline proposals in relation to grant aid. This will be followed by negotiations on the level and form of the promoter's investment, the level of grant aid and related matters. The project will go through an internal approval process within IDA Ireland and, in the case of very large projects, the proposed grant package may require government and possibly even EU approval. The terms of the grant package finally agreed upon will be formalized in a grant agreement between the promoter and IDA Ireland.

## **Negotiations for Grant Assistance**

Grant Level per Employee and Total Employment Numbers

In the case of capital and employment grants, the number, quality and location of jobs to be created are major determinants of the overall grant amount awarded. Once the total planned

jobs number is agreed, that number becomes a benchmark with regard to the amount of grant to be claimed. If the original estimate of total jobs to be created is too high, there is the possibility that the applicant will not be in a position to claim the total grants on offer. If the initial estimate is too low, the applicant will be foregoing grants that would otherwise have been available.

# Equity or Equity Equivalent Required from the Inward Investor

It is a standard requirement of IDA Ireland that the aggregate level of grants paid must be matched by an equal amount of equity investment by the promoters. IDA Ireland's preferred position is that this equity be in the form of common stock or ordinary share capital. However, "equity equivalent" is normally acceptable up to a maximum of 75% of the total grant aid. Equity equivalent is usually in the form of subordinated loans from the promoters. These are loans that are subordinated to the claims of all unsecured creditors, including the grant agency itself. Subordinated loans and interest thereon may only be paid out of reserves that would otherwise be available for distribution. Equity equivalent may also, later in the life of the project, take the form of a capitalization of retained earnings. The advantage of using equity equivalent is that capital duty of 1%, which applies on the issue of common stock or shares in an Irish limited company, is avoided. In addition, the use of subordinated loans offer greater flexibility, in terms of eventual repayment, than would apply to an equity investment. However, if a tax rate differential exists between Ireland and the country of source of the subordinated loan, the project will typically be financed with equity.

# **Payment of Grants**

All claims for payment of grants must be supported by an auditor's certification that the claimant company has paid out the relevant expenditure. Accordingly, it is important to maintain an adequate audit trail in respect of suppliers' invoices, fees, contract charges and payments to employees, in respect of capital or employment grants. In addition, audit confirmation will be required of the amount of equity or equity equivalent introduced by the promoters. Availability of comprehensive information on a timely basis will assist in the early payment of grants. It is normal for IDA Ireland to inspect the equipment or building involved in capital grant applications and they can request sight of employment contracts to support employment grant claims.

## **Repayment of Grants**

IDA Ireland's grants are generally repayable if the conditions contained in the agreement are breached during the term of the grant agreement. The term of the agreement normally extends for five years after the date of the last grant payment. In most instances, the contingent liability will have to be guaranteed by the parent company. Typical situations in which grants would become repayable include the following.

- Breach of conditions of the grant agreement
- Appointment of a receiver or liquidator to the company
- Ceasing to carry on business in Ireland
- Sale of the property which has been grant aided
- Failure to achieve employment targets

## **Accounting for Grants**

The accounting treatment of grants generally follows the accounting treatment of the underlying expenditure that is being grant aided. Thus, for capital grants the grant is taken to the balance sheet and amortized over the economic life of the grant aided asset. Revenue grants (such as employment grants) are credited to the profit and loss account in the year of receipt.

#### **Taxation of Grants**

Employment grants, which generally constitute the most significant proportion of grant packages, are exempt from tax. Most other forms of grant aid are taxable either on the basis of reducing the level of expenditure qualifying for tax depreciation allowances (in the case of capital grants) or in reducing the amount of expenditure qualifying for a tax deduction (revenue grants, including training grants). Capital grants awarded to companies in the food sector are also exempt from tax.

## ANNEX 4: FURTHER ENTERPRISE IRELAND GRANT INFORMATION

Enterprise Ireland's support package combines Enterprise Ireland's own business strategy with the needs of the client, and links them to export growth, productivity and employment. It also takes into account national policy on regional development.

Its objective is to assist companies that can clearly demonstrate a need for financial support. If a company applies for funding, EI will consider the application quickly, assess it according to commercial criteria and legislative guidelines, determine need for assistance and inform the firm of the outcome.

Overall, it is designed to:

- Meet the needs of the client more effectively,
- Address issues currently facing he client, such as increased competitiveness,
- Respond to regional differences and variances, and
- Deliver a better return to the tax-payer on committed revenue.

The approach outlined here applies to manufacturing and internationally traded services client companies and potential client companies of Enterprise Ireland and Shannon Development. It has five distinct categories addressing different business requirements and introduces, for the first time, a Building International Competitiveness category.

# 1. High Potential Start-Ups

Starting a new company with the potential to export and grow quickly requires a good business idea, ambitious and effective management, and finance. Enterprise Ireland provides both advice and financial assistance to entrepreneurs with a business plan underpinned by realistic projections of rapid growth in exports or sales. Support mechanisms offered include equity and grants.

# How Enterprise Ireland Can Help

Enterprise Ireland's High Potential Start-Up (HPSU) support package matches the financial needs of the client, by providing finance as the project gets started and by sharing the risk dynamic with the firm. Funding is up to 50/50 grant/equity, with Enterprise Ireland taking up to a maximum of 10% of the company's ordinary share capital. If Enterprise Ireland's equity investment reaches 10% of the ordinary share capital, further equity will be in the form of repayable preference shares. Enterprise Ireland funding will need to be matched by private investment from, for example, company promoters, a Business Expansion Scheme or Venture Capital.

## Very Early Stage Start-Up — Helping The Client Get Started

In exceptional circumstances, at the very early stage of start-up, if the client is not able to access adequate private sector funding, EI may consider making an investment in the company. All support in this instance will be in the form of equity, once again up to 10% of the ordinary share capital of the company. In such cases, the initial funding package may be approved against a series of milestones, for example:

- Establishment of a formal R&D department.
- Development of a product prototype.
- Achievement of a customer reference site.
- Sourcing new equity.

Once the high-risk early phase is over and milestones achieved, the company may qualify for the normal grant/equity package. Similar to above, if Enterprise Ireland's equity investment

reaches 10% of the ordinary share capital, further equity will be in the form of repayable preference shares.

The total amount of funding available for HPSUs, including very early stage start-ups, will be determined by a number of factors, including the company's need for financial support, anticipated export growth, potential employment and regional location.

# How To Qualify

A company is eligible to apply for this funding if they are a new start-up manufacturing or internationally traded services company:

- Based on technological innovation or a rapidly developing niche market,
- Likely to achieve significant sales growth of €1.3m and employ at least 10 people within three years, and
- Export oriented.

# 2. Exploring New Opportunities

Investigating new ideas and markets is an essential aspect of business development – but one that is expensive and time consuming.

# A New Streamlined Approach

Several small initiatives such as feasibility studies, recruitment of one key manager, the mentor program, trade fairs, market research and consultancy, are being brought together under one umbrella-funding approach called Exploring New Opportunities. This funding is designed to help companies streamline decision-making by identifying the most appropriate support needed as they pursue new growth strategies. Offering a maximum funding amount of  $\le 65,000$  within a two-year period for these activities combined, and a maximum level of funding of up to 50% of expenditure, the company will be required to clearly demonstrate need for funding assistance.

## How To Qualify

A company is eligible to apply for this funding if they are one of the following.

- A manufacturing or internationally traded services SME company employing 10–249 people.
- A new High Potential Start-Up company.

Feasibility study funding may be available for individuals or groups with a business idea they wish to develop.

# 3. Existing Company Expansion

Enterprise Ireland can help companies implement expansion plans to increase exports. The EI funding package for the expansion plan category is now offered under a single preference share contract.

# How Enterprise Ireland Can Help

The total amount of funding available will be determined by need for financial support for the project, anticipated export growth, potential employment and regional location. Funding is biased towards the Border, Midland and Western (BMW) region, and the South East, South West and Mid West regions. Not all funding under the new preference share agreement will be repayable. In order to particularly stimulate R&D and training, a non-repayable incentive will apply to these activities. Again, this will be regionally biased, with higher non-repayability in the BMW region, followed by the South East, South West and Mid West

regions, and lastly by Dublin and the Mid East region. Investment and job creation funding will always be repayable, as there will no longer be capital or employment grants.

**Table A.1: Existing Company Expansion Support** 

			Maximum Grant Level (%)	
Region	R&D Non-Repayable Incentive (€)	Training Non-Repayable Incentive (€)	Large Firms	SMEs
Dublin/Mid-East	390,000	75,000	25	35
South East/South	425,000	100,000	25	35
Border, Midlands, West	450,000	125,000	35	45

When the R&D/training activity has been undertaken, the certified amount of non-repayable incentive will be determined by the actual expenditure incurred and validated. In addition, any approvals under the Research, Technology and Innovation Competitive Grants Scheme (RTI) will be taken into account in determining non-repayable R&D amounts.

#### How To Qualify

A company is eligible to apply for this funding if it is an existing manufacturing or internationally traded services company, employing ten or more people. Typically, companies are existing clients of Enterprise Ireland or Shannon Development.

### 4. Building International Competitiveness

Building competitiveness in companies is a national priority. Enterprise Ireland's Competitiveness Fund for SMEs is specifically designed to help achieve this.

## Helping You Build A Competitive Edge

Designed to improve competitiveness and increase output by addressing broad productivity issues, this new fund covers activities such as the following.

- Capital investment for example in machinery/automation equipment
- Operations improvement through, for example, World Class Manufacturing (WCM)/World Class Logistics (WCL)/Supplier Development Programs
- Management and staff training
- Employment of a key person

Non-repayable funding will be offered to successful companies up to a defined regional ceiling and/or percentage aid rate by region, as follows.

**Table A.2: SME Competitiveness Fund Support** 

Region	Minimum Eligible Expenditure (€)	Maximum Grant (€) and Aid Rate (%)
Dublin/Mid West	100,000	150,000 or 25% of eligible expenditure,
		whichever is the lesser
Border, Midlands, West	50,000	225,000 or 45% of eligible expenditure,
		whichever is the lesser
Other Regions	70,000	175,000 or 30% of eligible expenditure,
-		whichever is the lesser

#### Do To Qualify

A company is eligible to apply for this funding if it is an existing manufacturing or internationally traded services SME company, employing 10–249 people, incorporated and trading for at least five years. Typically, companies are existing clients of Enterprise Ireland or Shannon Development.

In addition, the company must not have been approved for financial support in excess of € 200,000 in the previous three years. Proposals for funding under the Competitiveness Fund

will be accepted every two months. Applications for the Competitiveness Fund will be assessed by Enterprise Ireland commercial and technical assessors, in relation to the expected impact of the proposed project on the company's productivity and future competitive position internationally, and presented to the relevant approvals committee.

## 5. Research And Development

Research and development is an integral part of any ambitious company and is driven by market and competitive forces.

Research, Technology and Innovation Competitive Grants Scheme

To help you meet today's challenges and to further stimulate R&D performance, the Research, Technology and Innovation Competitive Grants Scheme (RTI) has been modified. Adjustments to the scheme have been made in relation to the total amount of funding which may be approved, the introduction of regional bias to the grant amount, and the introduction of repayability.

- The maximum funding support which may be approved will be €650,000 in all regions.
- This will have a grant and repayable element.
- The maximum grant will be:
  - Dublin and Mid East €390,000;
  - South East, South West and Mid West €425,000;
  - BMW €450,000.
- Amounts approved above these grant ceilings up to €650,000 will be repayable.
- Repayability will be linked to the successful completion of the R&D project and the achievement of agreed business targets for the company.

Table A.3: Research, Technology, and Innovation Grants Scheme

			Maximum Grant Level (%)	
Region	Maximum Funding Incentive (€)	Maximum Grant Amount (€)	Large Firms	SMEs
Dublin & Mid-East	650,000	390,000	25%	35%
Border, Midlands, West	650,000	450,000	35%	45%
Other Regions	650,000	425,000	25%	35%

#### Do To Qualify

A company is eligible to apply for funding if it is an Irish-based manufacturing or internationally traded services company which can show adequate cash resources to implement the proposed R&D project. Companies at a very early stage of development that may not have adequate cash resources to fund their R&D project should contact the relevant agency (Enterprise Ireland or Shannon Development).

### Significant R&D Projects

Enterprise Ireland encourages significant R&D projects and will discuss R&D-related projects requiring funding in excess of €3m on an individual company basis. Percentage aid rates and amounts of funding available will be determined by value for money considerations

and EU state aid limits. Information can be accessed through your Development Adviser, or by contacting your nearest Enterprise Ireland regional office or Shannon Development.

### 6. How Will the Proposals Be Assessed

Applications for funding will be presented to a relevant committee made up of Enterprise Ireland Executives, public sector and private sector representatives (as appropriate). Key considerations in assessing applications include the following.

- Need for financial assistance
- Value for money
- Commercial considerations
- Technical considerations
- Financial track record

In arriving at a decision, the committee also take into consideration any relevant regulations including EU state aid rules and policy direction from the Department of Enterprise, Trade and Employment. When the committee has decided whether or not to approve funding, and determined the appropriate amount of funding, the company will be informed of the outcome. If the application is successful, Enterprise Ireland's client service unit will contact the company regarding the legal agreement and payment will follow.

These are the stages of the entire process.

- Application submitted/agreed development plan
- Evaluation by relevant committee
- Letter of offer
- Legal documentation
- Validation process
- Payment

### **ANNEX 5: REFERENCES**

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#### **ANNEX 6: INTERVIEW FORMS**

#### **Al Karak Industrial Estates**

Sector:

Date of establishment:

Type of activity:

**Investment Area:** 

# **Survey Questions**

- In which industrial estate is your company located?
- Have you considered establishing your firm in other industrial estates? If yes, which ones?
- What was your firm's main motivation to invest at this particular industrial estate?
- What did you find attractive in your current location vis-à-vis the other IES that you considered? Please list as many attractions as possible.
- According to the Investment Promotion Law, some industrial estates are located in Zone (C) while others are located in zones A and B. Zone C offers the most attractive investment incentives (in the form of longer tax breaks). Did such additional investments affect your decision about where to locate your operations?
- Was the additional 2-year tax-exemption for investments at public industrial estates (JIEC-run industrial estates) an issue to consider when choosing your location?
- If the government were to modify tax incentives available to investors like you in your present location, how would you suggest the modification to be?
- What sort of incentives (fiscal, financial, subsidies, tax exemptions, non-tax incentives, etc.) would attract you to invest in less developed, rural areas, such as Al Karak?

#### Other Industrial Estates

Sector:

Date of establishment:

Type of activity:

Investment Area:

#### **Survey Questions**

- What was the attractive incentive (other than incentives granted under the promotion law) that made you invest in a rural area?
- Is the government gives any consideration (non-fiscal incentives) to your industry?
- If yes, what type of non-fiscal incentives that you currently enjoy being operating in this "targeted" industry?
- Have you considered the geopolitical volatility when considered investing in Jordan?
- If yes, what kind of incentives was granted to your to make-up for "geopolitical volatility"?
- What did you find attractive in your current location vis-à-vis the other areas (example: industrial estates)? Please list as many attractions as possible.
- If the government were to modify tax incentives available to investors like you in your present location, how would you suggest the modification to be (give an emphasis on non-fiscal incentives)?
- What sort of incentives (fiscal, financial, subsidies, tax exemptions, non-tax incentives, etc.) would attract you to invest in less developed, rural areas?

#### ANNEX 7: FURTHER MIGA INFORMATION

#### Overview

MIGA insures new cross-border investments originating in any MIGA member country, destined for any other developing member country. New investment contributions associated with the expansion, modernization, or financial restructuring of existing projects are also eligible, as are acquisitions that involve the privatization of state-owned enterprises. Other investments may be eligible and are considered on a case-by-case basis.

Types of foreign investments that can be covered include equity, shareholder loans, and shareholder loan guaranties, provided the loans have a minimum maturity of three years. Loans to unrelated borrowers can be insured, provided a shareholder investment in the project is insured concurrently or has already been insured. Other forms of investment, such as technical assistance and management contracts, and franchising and licensing agreements, may also be eligible for coverage.

New investments are those that have neither been made nor irrevocably committed on the date of submission to MIGA of a Preliminary Application for Guarantee signed by the investor. In keeping with MIGA's objective of promoting economic growth and development, investment projects must be financially and economically viable, environmentally sound, and consistent with the labor standards and other development objectives of the host country.

Since its inception, MIGA has issued more than 650 guarantees for projects in 85 developing countries. As of June 2003, total coverage issued exceeded \$12 billion, bringing the estimated amount of FDI facilitated since inception to more than \$50 billion. The agency mobilizes additional investment coverage through its Cooperative Underwriting Program (CUP), encouraging private sector insurers into transactions they would not have otherwise undertaken, and helping the agency serve more clients.

MIGA membership, which currently stands at 164, is open to all World Bank members.

#### **Eligible Investors**

Eligible investor's include nationals of a MIGA member country from a country other than the country in which the investment is to be made. Under certain conditions, investments made by nationals of the host country can also be eligible. A corporation is eligible for coverage if it is either incorporated, and has its principal place of business, in a member country, or if it is majority-owned by nationals of member countries. A state-owned corporation is eligible if it operates on a commercial basis.

### **Terms**

Investors may choose any combination of the four types of coverage. Equity investments can be covered up to 90 percent, and debt up to 95 percent, with coverages typically available for up to 15 years, and in some cases, for up to 20. MIGA may insure up to \$200 million, and if necessary more can be arranged through syndication of insurance. Pricing is determined on the basis of both country and project risk, with the effective price varying depending on the type of investment and industry sector. The investor has the option to cancel a policy after three years, however MIGA may not cancel the coverage.

## **Coinsurance and Reinsurance**

MIGA's guarantee program complements national and private investment insurance schemes, through coinsurance and reinsurance arrangements to provide investors more comprehensive

investment insurance coverage worldwide. The agency recently revised its broker's program to encourage closer cooperation between investment brokers and MIGA.

MIGA complements the activities of other investment insurers and works with partners through its coinsurance and reinsurance programs to expand the capacity of the political risk insurance industry's income. To date, MIGA has officially established 18 such partnerships.